



**CIRCULAR OF THE STATE  
ADMINISTRATION OF TAXATION ON THE  
RELEVANT ISSUES CONCERNING THE  
ENTERPRISE INCOME TAX REFUNDED  
FOR THE REINVESTMENT MADE BY  
FOREIGN INVESTORS**

(Promulgated on July 17, 2002 by the STATE  
ADMINISTRATION OF TAXATION)

The bureaus of state taxes of the provinces,  
autonomous regions, municipalities directly under  
the Central Government, and cities under separate  
State Planning, the Bureau of Local Taxes of  
Guangdong Province, and the Bureau of Local  
Taxes of Shenzhen City:

Recently, some regions have presented several  
issues that need to be further clarified in respect of  
the execution of the preferential policies on tax  
refund for reinvestment, the relevant issues are  
hereby clarified as follows in order to regulate the  
execution of the relevant preferential policies on tax  
refund for reinvestment provided for in the Law of the  
People's Republic of China on the Income Tax of  
Foreign-Funded Enterprises and Foreign Enterprises  
(hereinafter referred to as taxation law) and the  
implementation rules thereof:

1. Where a foreign-funded enterprise, pursuant to  
the resolution of its board of directors, reinvests with  
the accumulation fund (or development fund or  
reserve fund) it drew from the profits after payment of  
the enterprise income tax pursuant to the relevant  
provisions, and increases the registered capital of  
the enterprise correspondingly, with respect to the  
part of the aforesaid reinvestment of the foreign  
investors that is used to increase the registered  
capital, tax refund for reinvestment by foreign

investors may be granted, in accordance with Article  
10 of the taxation law and other relevant provisions.

2. The expression "directly used to invest and  
establish other foreign-funded enterprises"  
mentioned in Paragraph 1 of Article 80 of the  
implementation rules of the taxation law including the  
following circumstances:

1) The fund is directly used to make reinvestment to  
establish other new foreign-funded enterprises, and  
the amount reinvested constitutes the registered  
capital of the new enterprise;

2) The fund is directly used to make reinvestment to  
increase the registered capital of any existing  
foreign-funded enterprise.

Where a foreign investor makes reinvestment with  
the profits obtained from any foreign-funded  
enterprise to purchase the equity of other investors in  
an existing enterprise, and does not increase the  
registered capital or working fund of that enterprise,  
that investor may not enjoy the preferential treatment  
of tax refund for reinvestment.

3. Where a foreign investor makes reinvestment with  
assets in foreign currencies, the amount of  
reinvestment shall be converted into RMB, at the  
exchange rate promulgated by the state on the day  
the enterprise accepting the reinvestment actually  
receives the said amount, as the amount of  
reinvestment on the basis of which the rebate shall  
be computed.

4. Where a foreign investor makes direct  
reinvestment or reinvestments with the after-tax  
profits of a year obtained from any foreign-funded  
enterprise, the amount of reinvestment on the basis  
of which the tax refund is computed may not exceed  
the limits computed according to the following  
formulas:

Limit on the amount of reinvestment = (taxable income of the foreign-funded enterprise in the year of the said after-tax profits are obtained - amount of the enterprise income tax actually paid by the foreign-funded enterprise in that year) the proportion of the equity (or distribution) the foreign investor holds in the foreign-funded enterprise in that year

Where the foreign investor makes reinvestment with all the after-tax profits obtained from the foreign-funded enterprises in the same year, if the amount of reinvestment is less than the aforesaid limit, the tax refund shall be computed on the basis of the actual amount of the reinvestment; where the aforesaid limit is exceeded, the tax refund shall be computed on the basis of the limit, and no tax refund will be computed for the exceeding part.

5. The "foreign-funded enterprises in which foreign investors hold 100% of the shares and which especially engage in the investment business" as prescribed in the Official Reply of the State Administration of Taxation on the Relevant Issues Concerning the Tax Refund for the Reinvestment Made by Foreign-Funded Enterprises (No.154 [1995] of the State Administration of Taxation) shall include the enterprises that especially engage in the investment business and in the businesses related thereto.

The businesses related to investment business shall be confined to the assistant professional services such as purchase of raw materials, sale of products and after-sale services, financial and technical supports etc. that are provided by a foreign-funded enterprise within the companies belonging to the group invested by that enterprise in accordance with the Interim Provisions on the Establishment of Investment Companies by Foreign Merchants and the supplementary provisions thereof promulgated by the Ministry of Foreign Trade and Economic

Cooperation on April 4, 1995 and within the scope fixed by that enterprise's business license; as well as the research and development, consultation, training and export businesses undertaken within the prescribed scope inside and outside of the companies belonging to the group invested by that enterprise.