

**Interim Provisions of the State Council Concerning the Reduction of and  
Exemption From Enterprise Income Tax and Consolidated Industrial and  
Commercial Tax in the Special Economic Zones and  
the Fourteen Coastal Port Cities**

(Promulgated by the State Council on November 15, 1984)

In order to enable the four special economic zones, namely Shenzhen, Zhuhai, Xiamen, and Shantou and the fourteen coastal port cities, namely Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, and Beihai to expand economic cooperation and technical exchange with foreign countries, attract foreign capital, introduce advanced technology and accelerate the construction of socialist modernization, companies, enterprises, and individuals from foreign countries, Hong Kong, Macao, and other regions (hereinafter referred to collectively as "external investors") that invest in the above mentioned special zones and cities by setting up Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures and foreign-capital enterprises shall be accorded preferential treatment in the form of reduction of or exemption from enterprise income tax and consolidated industrial and commercial tax.

**Chapter I Special Economic Zones**

1. Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures and foreign-capital enterprises (hereinafter referred to as "special zone enterprises") established in the special economic zones (hereinafter referred to as "special zones") shall be subject to enterprise income tax at the reduced rate of 15% on income from production and business operations and other income. Of such enterprises:

(1) enterprises engaged in industry, communications and transport, agriculture, forestry, animal husbandry and other production-oriented industries that are scheduled to operate for a period of ten years or more, shall, upon approval by the special zone tax authorities of applications filed by them, be exempt from income tax for the first and second years commencing from the first profit-making year, and shall be allowed a 50% reduction of income tax from the third through the fifth years.

(2) enterprises engaged in service trades that are scheduled to operate for 10 years of more, if the investments of foreign investors exceed 5 million US\$, shall, upon approval by the special zone tax authorities of applications filed by them be exempt from income tax in the first profit-making year and shall be allowed a 50% reduction

of income tax in the second and third years.

2. With respect to the local income tax imposed on the special zone enterprises, the people's governments of the special zones shall determine whether preferential treatment in the form of tax reduction or exemption needs to be granted.

3. The share of profit distributed to external investors by Chinese-foreign equity joint ventures in special zones and remitted abroad shall be exempt from income tax.

4. With the exception of income which is exempt from income tax in accordance with the law, dividends, interest, rentals, royalties and other income derived from sources within the special zones by foreign investors having no establishments in China shall be subject to tax at a reduced tax rate of 10%. Additional preferential treatment with regard to tax reductions or tax exemptions which need to be given to foreign investors that provide capital or equipment on preferential terms or transfer advanced technology shall be decided by the people's governments of the respective special zones.

5. With respect to goods subject to consolidated industrial and commercial tax which are imported by the special zone enterprises prior to the establishment of the administrative borders of the special zones, machinery, equipment, raw materials, spare parts and fittings; means of transport and other production materials essential for production shall be exempt from consolidated industrial and commercial tax. Means of transport and durable consumer goods the importation of which is restricted by the State shall be subject to consolidated industrial and commercial tax according to the tax law. Consolidated industrial and commercial tax shall be imposed at one half of the stipulated tax rates on various kinds of imported mineral oils, tobacco, alcoholic beverages, and various other kinds of articles for daily use. Following the establishment of the administrative borders of the special zones, various kinds of imported mineral oils, tobacco and alcoholic beverages, shall continue to be subject to consolidated industrial and commercial tax at one half of the stipulated tax rates; the remaining imported goods shall all be exempt from consolidated industrial and commercial tax. Reasonable quantities of tobacco, alcoholic beverages, luggage, articles for daily use and settling-in articles personally carried in by individual external investors or personal use shall be exempt from consolidated industrial and commercial tax.

6. All products for export produced by special zone enterprises, except for those whose export is restricted by the State and the small number of products otherwise prescribed by the State, shall be exempt from consolidated industrial and commercial tax.

7. Mineral oils, tobacco, alcoholic beverages and other such products manufactured by special zone enterprises and sold within the same special zone shall

be subject to consolidated industrial and commercial tax at one half of the tax rates stipulated in the tax laws. The people's government of the special zone may also determine on its own to fully collect or to collect a reduced consolidated industrial and commercial tax with respect to a minority of products. Other products shall no longer be subject to the consolidated industrial and commercial tax.

8. Special zone enterprises that transport inland imported goods in respect of which reductions of or exemptions from consolidated industrial and commercial tax have been granted or products produced in the special zones shall, at the time such goods are transported inland, make good such reductions of or exemptions from consolidated industrial and commercial tax in accordance with the provisions of the tax laws. Reasonable quantities of luggage and articles for daily use that individuals or external investors personally carry inland from the special zones for personal use shall be exempt from consolidated industrial and commercial tax.

9. The income of special zone enterprises engaged in commerce, communication and transport and service trades shall be subject to consolidated industrial and commercial tax according to the tax rates stipulated in the tax laws. Consolidated industrial and commercial tax shall be imposed at the rate of 3% on income derived from banking and insurance operations. The special zone people's governments shall determine whether special treatment in respect of reductions of or exemptions from consolidated industrial and commercial tax needs to be granted to the above-mentioned enterprises for a specified period of time during the initial period of operations.

10. Reductions of and exemptions from enterprise income tax and consolidated industrial and commercial tax on Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures and foreign-capital enterprises established in the Hainan Administrative Region of Guangdong Province shall be implemented with reference to the relevant provisions applying to the special zones.

## **Chapter II The Economic and Technological Development Zones of the Fourteen Coastal Port Cities**

1. Production-oriented enterprises organized as Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures and foreign-capital enterprises (hereinafter referred to as "development zone enterprises") established in the economic and technological development zones (hereinafter referred to as "development zones") shall be subject to enterprise income tax at the reduced tax rate of 15% on income from production and business operations and on other income. Among these enterprises, those scheduled to operate for a period of 10 years or more, upon approval by the municipal tax authorities of an application filed by the enterprise, shall be exempt from

income tax in the first and second years, commencing from the first profit-making year, and be allowed a 5% reduction in the third through the fifth years.

2. With respect to the local income tax imposed on the development zone enterprises, the municipal people's governments in the locations of the development zones shall determine whether preferential treatment in the form of tax reduction or exemption needs to be granted.

3. The share of profits distributed to external investors by Chinese-foreign equity joint ventures in the development zones and remitted abroad shall be exempt from income tax.

4. With the exception of income which is exempt from income tax in accordance with the law, dividends, interest, rentals, royalties and other income derived from sources within the development zones by external investors having no establishments in China shall be subject to tax at the reduced tax rate of 10%. Of such external investors, with respect to those that provide capital or equipment on preferential terms or transfer technology which is advanced, their preferential treatment with regard to further tax reductions or tax exemptions shall be decided by the municipal people's government located in the respective development zone.

5. Building materials, production equipment, raw materials, spare parts and fittings, components, means of transport and office supplies imported by development zone enterprises for their own use shall be exempt from consolidated industrial and commercial tax. Development zone enterprises that divert for sale on the domestic market products processed from imported raw materials, spare parts and fittings and components that were exempt from tax shall, in accordance with the tax laws, make up consolidated industrial and commercial tax on imported material and parts used for such products.

6. Products for export produced by development zone enterprises, other than those whose export is restricted by the State, shall be exempt from consolidated industrial and commercial tax; products for domestic sale shall be taxed according to the tax laws.

7. Reasonable quantities of settling-in articles and means of transport that are personally brought in by external business personnel who work in development zone enterprises or reside in development zones for their own use shall, on the basis of certificate issued by the municipal development zone administrative committee, be exempt from consolidated industrial and commercial tax.

### **Chapter III The Old Urban Districts of the Fourteen Coastal Port Cities and the Urban Districts of Shantou, Zhuhai and Xiamen Municipalities**

1. Production-oriented enterprises organized as Chinese foreign equity joint ventures, Chinese-foreign contractual joint ventures and foreign-capital enterprises (hereinafter referred to collectively as "old urban district enterprises") established in the old urban districts of the fourteen coastal port cities and the urban district of Shantou, Zhuhai and Xiamen municipalities (hereinafter referred to collectively as "old urban districts") shall, upon approval of the Ministry of Finance, be subject enterprise income tax at the reduced rate of 15% in respect of projects which are technology-intensive or knowledge-intensive, or in which the amount invested by foreign investors is 30 million US\$ or more and the investment recovery period is long or which involve energy development or the construction of communications or port facilities.

Old urban district enterprises that do not qualify for the tax reductions prescribed in the preceding paragraph, but which involve one of the industries listed below, may, upon approval by the Ministry of Finance, be subject to enterprise income tax calculated at 80% of the tax rate stipulated in the tax laws:

- (1) machine manufacturing and electronics industries;
- (2) metallurgical, chemical and building materials industries;
- (3) light industries, textiles and packaging industries;
- (4) medical apparatus and instruments and pharmaceutical industries;
- (5) agriculture, forestry, animal husbandry and aquaculture industries and the related processing industries;
- (6) construction industries.

Reductions of and exemptions from enterprise income tax for old urban district enterprises shall be dealt with according to the above-mentioned preferential tax rates and in conformity with the time limits and scope stipulated in the Income Tax Law of the People's Republic of China for Chinese-Foreign Equity Joint Ventures and the Income Tax Law of the People's Republic of China for Foreign Enterprises.

2. With respect to the local income tax imposed on old urban district enterprises, the municipal people's government shall determine whether preferential treatment in the form of tax reduction or exemption needs to be granted.

3. With the exception of income which is exempt from income tax in accordance with the law, dividends, interest, rentals, royalties and other income derived from sources within the old urban districts by external investors not having establishments in China shall be subject to income tax at the reduced tax rate of 10%. Of such external investors, with respect to those that provide capital or equipment on preferential terms or transfer technology which is advanced, their preferential treatment in regard to further tax reductions or tax exemptions shall be decided by the municipal people's government.

4. Production equipment, equipment for business operations and building materials imported as investment contributions or additional investment, as well as means of transport and office supplies imported by old urban district enterprises for their own use shall be exempt from consolidated industrial and commercial tax.

5. Products for export produced by old urban district enterprises, excluding those whose export is restricted by the State, shall be exempt from consolidated industrial and commercial tax; products that are sold domestically shall be taxed according to the tax laws.

6. The portion of raw materials, spare parts and fittings, components, packaging materials and other such materials imported by old urban district enterprises which is used in the production of export products shall be exempt from consolidated industrial and commercial tax; the portion of imported materials used in the production of products for domestic sale shall be taxed in accordance with the tax laws.

7. Reasonable quantities of settling-in articles and means of transport personally brought in by external business personnel for their own use shall, on the basis of a certificate issued by the relevant departments of the municipal people's governments, be exempt from consolidated industrial and commercial tax.

#### **Chapter IV    Effective Date**

The stipulations of these Provisions concerning the reduction of and exemption from income tax shall become effective as of the year of 1984; the stipulations of these Provisions concerning the reduction of and exemptions from consolidated industrial and commercial tax shall become effective as of December 1, 1984.