

Notice of the State Administration of Taxation on Corporate Income Tax Implications of Fees Charged for Service Charges between a Parent Company and its Subsidiaries

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State taxation bureaus and local taxation bureaus of all provinces, autonomous regions and municipalities directly under the central government and cities under separate state planning,

Pursuant to the provisions in the Corporate Income Tax Law of the People's Republic of China and its implementation rules, the corporate income tax implications of fees charged for services provided between a parent company and its subsidiaries within China are hereby notified to be as follows:

1. For services provided by a parent company to its subsidiaries, the parent company should charge service fees based on the arm's length principle, and the charges should be treated as normal service fees from a tax perspective.

If the service charges between the parent company and its subsidiaries are not at arm's length, the tax authority is empowered to make tax adjustments in this respect.

2. When services are provided by a parent company to its subsidiaries, they are required to sign agreements to set out the service scope, standard for the charges and total charges, etc. Service fees incurred based on the service agreement should be treated as the operating revenue of the parent company and the deductible expenses of its subsidiaries for CIT purpose.

3. Where a parent company provides similar services to several subsidiaries, the service fees may be charged based on separate service contract or agreements, and may also be charged on a shared service basis, i.e. the parent company enters into service fee sharing agreements with the subsidiaries and reasonably allocates the total service fees, which are calculated as total actual costs incurred for the provision of services by the parent company to its subsidiaries plus a certain level of profits, to the beneficial subsidiaries of each service (including profit-making entities, loss-making entities, and entities in tax holidays) pursuant to Paragraph 2 of Article 41 of the CIT Law.

4. Management fees charged by the parent company and paid by its subsidiaries are not deductible for CIT purposes.

5. To claim tax deduction of service fees paid to the parent company, subsidiaries should provide the relevant service contracts or agreements with the parent company and other documents relating to tax deduction to the in-charge tax authority. Without these documents, such service fees are not deductible for CIT purposes.

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