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Taxation

Income Tax

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VII. Preferential Tax Treatment

Domestic enterprises located in the national autonomous areas may enjoy tax reductions and exemptions. National autonomous areas refer to the autonomous regions, autonomous prefectures, and autonomous counties as stipulated in the *Law of the PRC on Regional National Autonomy*. Nevertheless, as far as tax reduction and exemption are concerned, only the provincial level and autonomous region level may sanction such preferential tax treatment. Tax reductions and exemptions must with a fixed term. This is in accordance with the *Administration of Tax Collection*.

The *Enterprise Income Tax Regulations* also stipulate that enterprises may be eligible for tax reductions and exemptions, provided such reductions and exemptions are authorized by the provision of the Standing Committee of the NPC and the State Council. Unlike the *Law of the PRC on Enterprise Income Tax* for Enterprises with Foreign Investment and Foreign Enterprises (the "FIE & FE Income Tax"), there has been no law or regulation adopted to give preferential tax treatment to enterprises involved in the trade such enterprises engaged in. As a result, preferential tax treatment may only be granted by the local governments in the autonomous regions. It is arguable, however, that domestic enterprises in the SEZs, high technology development zones and other types of economic development zones should be entitled to a lower income tax rate. Such zones offer an average of 15% income tax rate for enterprises with foreign investment. For the purpose of encouraging free competition, it is reasonable that domestic enterprises in such zones are treated equally with enterprises with foreign investment, which is compatible with the spirit of the current tax reforms.

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