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Draft enforcement regulations for corporate income tax law passed

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China's State Council, or the cabinet, on Wednesday passed a draft of regulations aimed at helping to enforce the country's new corporate income tax law.

It is necessary to draw up the regulations to ensure the implementation of the new law, which will come into effect on Jan.1 next year, said a State Council executive meeting presided over by Premier Wen Jiabao.

After further revisions, the regulations will be promulgated by the State Council.

According to the draft, the income tax rate for foreign companies in special bonded zones, which previously enjoyed a preferential rate of 15 percent, will rise in stages to 18 percent,20 percent, 22 percent, 24 percent and finally 25 percent, the same as domestic companies, over five years.

It will be the first time since 1978 that China puts domestic and foreign firms on an equal footing in income taxation in an effort to promote fair competition.

The arrangement would apply to such bonded zones as Shenzhen Special Economic Zone, economic development zones set up in coastal cities like Hongqiao Economic and Technological Development Zone in Shanghai, and high- and new-tech development zones including Zhongguancun Science Park in Beijing.

However, foreign companies that have tax holidays, which provide for five tax-free years and another five years of up to 50percent reduction, will retain those concessions for the full 10 years before facing the new higher rates.

The 15-percent rate will be retained until 2010 for foreign companies that invest in the central and western regions of China, an apparent effort by the government to redress regional economic imbalances.

The regulations will include new criteria for high- and new-technology firms, which can enjoy a lower 15-percent rate.

The qualifications could include the ownership of core proprietary property rights or government-supported products.

The regulations will also specify the proportion of sales that must be devoted to research and development and the ratio of research employees among total staff for qualified high- and new-tech firms.

The changes will make it more difficult for companies to gain the status of high- or new-tech investors, said experts.

The regulations also state in detail tax policies that will favor infrastructure projects, environmental protection, and energy and water conservation.(Xinhua)

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