



Pre-tax Deduction of Financial Enterprises' Loss Reserves for Agriculture-related Loans and Loans for Small and Medium-sized Enterprises

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Introduction: In accordance with the relevant provisions of the Enterprise Income Tax Law of the People's Republic of China and the Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China, the Ministry of Finance and the State Administration of Taxation issue policies concerning the deduction of financial enterprises' loss reserves for agriculture-related loans and loans for small and medium-sized enterprises before the payment of enterprise income tax.

I. Loan loss reserves calculated and set aside by a financial enterprise at any of the following rates after it conducts the risk classification of its loss reserves for agriculture-related loans and loans for small and medium-sized enterprises in accordance with the Guidelines for Loan Risk Classification are allowed to be deducted in the calculation of its taxable income:

- (1) 2% for special-mentioned loans.
- (2) 25% for substandard loans.
- (3) 50% for doubtful loans.
- (4) 100% for loss loans.

II. For the purpose of this Notice, “agriculture-related loans” means the following loans under the statistics of the Special Statistical System for agriculture-related Loans (No. 246 [2007], PBC).

- (1) Loans for farmer households.
- (2) Loans for rural enterprises and all kinds of organizations.

For the purpose of this Article, “loans for farmer households” means all loans granted by financial enterprises to farmer households. The loans for a farmer household shall be determined on the basis of whether the borrower is a farmer household when the loans are granted. “Farmer households” means the residents living in the administrative areas of

villages or towns (excluding county towns) for a long period (one year or longer), the residents living within the administrative villages under the jurisdiction of county towns for a long period, the residents who have no registered permanent residence of a locality but have lived in the locality for one year or longer, the employees of state-owned farms and rural individual industrial and commercial households. The collective households of government organs, social organizations, schools, enterprises and public institutions of the state-owned economy in the administrative areas of villages or towns (excluding county towns) and within the administrative villages under the jurisdiction of county towns; and the residents who have registered permanent residence of a locality, but have left hometown with the whole family and have been seeking a livelihood elsewhere for one year or longer shall not be within the meaning of farmer households, no matter whether or not they keep the land contract. Farmer households shall be calculated on the basis of household, and they may engage in both agricultural and non-agricultural production and business operations.

For the purpose of this Article, “loans for rural enterprises and all kinds of organizations” means all loans granted by financial enterprises to enterprises or all kinds of organizations registered in rural areas. “Rural areas” means areas other than the administrative regions of cities at or above the prefecture level and their organic towns under the jurisdiction of cities.

III. For the purpose of this Notice, “loans for small and medium-sized enterprises” means the loans granted by financial enterprises to the enterprises with an annual sales volume and a total amount of assets of not more than 200 million yuan respectively.

IV. The qualified losses of agriculture-related loans and loans for small and medium-sized enterprises incurred by a financial enterprise shall first offset the loan loss reserves that have been deducted before the payment of enterprise income tax, and the left-over portion after the offset may be deducted in the calculation of the amount of taxable income in full amount.

V. This Notice shall be implemented from January 1, 2014, to December 31, 2018.

Remark: The government, in order to improve the rural financial details, shows that it is determined to uphold rural financial development.

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