

Maggie's message

Customer relationship matter

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In an asset deal, customer relationship is commonly transferred together with equipment, stock, account receivable, etc. Buyers generally book customer relationship as an intangible asset, and amortise it accordingly.

However, it is controversial if customer relationship could be amortised or not.

1) Accounting view

Referring to the Chinese GAAP, an intangible asset is an identifiable non-currency asset without physical substance owned by a company. Customer relationship arising from contractual rights satisfies the intangible asset definition. It is reasonable for buyers to recognize customer relationship as an intangible asset.

From accounting view, whether an intangible asset could be amortised or not depends on if it has a definite useful life. If companies have difficulties in defining an accurate useful life of customer relationship, it will give rise to problems in the amortisation.

2) Tax view

The Chinese corporate income tax ("CIT") law uses a similar definition of "intangible asset" as mentioned in the Chinese GAAP. It has gone further to indicate the types of intangible assets include:

- Patent rights, trademark rights, copyright, land use right, non-patented technologies, goodwill etc.

In the CIT, all intangible assets could be amortised except goodwill.

Customer relationship is not separately listed as one category by the CIT law. If customer relationship is classified as goodwill, the amortisation expenses of customer relationship could not be deducted for the CIT purpose.

In summary, there is no specific ruling allowing the amortization of customer relationship. Practically, Chinese tax authorities might treat customer relationship as goodwill and refuse the amortization expense deduction for the CIT. This results in extra income tax cost.

The potential post-deal tax exposure of customer relationship should be taken into consideration by buyers when an asset deal is planned. Furthermore, a proactive communication with the tax authority on customer relationship could help avoid disputes.



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