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Tax Incentives for High-tech Companies in China

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Since China's new Enterprise Income Tax Law took effect in January 2008, the country's national and provincial governments have implemented a series of tax incentives for new high tech enterprises (NHTEs). A hugely profitable industry in China, proactively applying for the different subsidies, tax exemptions and government funding schemes can significantly reduce a high tech company's tax burden and improve its market position.

Tax Incentives and Eligibility

With initiatives on state, provincial and local levels, NHTEs are eligible for a reduced CIT rate of 15 percent; down from the 25 percent applied to other companies They are also eligible for R&D expense rebates and staff training expenditure reimbursements, given they meet the following criteria:

- Are registered as a resident enterprise for a year or more;
- Operate within China, excluding Hong Kong, Macau and Taiwan;
- Possess the intellectual property of the enterprise's core technology which falls within the scope of high tech fields supported by the state;
- Maintained R&D and technological advancements which form the main base of its development process;
- In the last three financial years, R&D expenditure accounts for sales income adhere to one of the following:
  -In the last year, total income is not less than six percent if latest annual sales income is less than RMB 50 million; not below 4 percent if latest annual sales income is between RMB 50 million and RMB 200 million; and not below three percent if the latest annual sales income is upwards of RMB 200 million.
- R&D expenditure within China is not less than 60 percent;
- The ratio of income from high-tech related operations against total income is not lower than 60 percent.

A company must also bear in mind that initiatives on different levels have varying requirements for eligibility, and that only after being awarded NHTC can they apply for the relevant benefits.

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TASE Tax Incentives

Technology Advanced Service Enterprises (TASEs) are also subject to the same reduced CIT rate and staff training reimbursements. However, ownership of intellectual property rights and minimum R&D expenditure is not included in the criteria for TASE status, making it easier to enjoy tax and financial incentives, which are offered by the State Council until 31 December 2018.

Eligibility Assessment

Assessment of NHTCs eligibility to receive funding and tax incentives are implemented by both departmental and national monitoring bodies.

Departmental level inspections:

- The National Audit Office holds periodical spot checks on NHTCs. In 2009, out of 116 companies that the National Audit Office inspected, five did not fulfil the conditions for NHTC status – the tax incentives they claimed reached RMB3.631 billion.
- The Ministry of Science and Technology have raised efforts to cancel verification of NHTCs who have publically announced that they have not obtained relevant credentials. In 2010, holding spot checks and cross examination of submitted reports from nearly 900 companies in Beijing, Shanghai, Tianjin, Guangdong and Jiangsu provinces, the Ministry of Science and Technology found that 10-15 percent of these applicants had not qualified for NHTC status.
- The Ministry of Finance develops an assortment of specialist examinations for NHTCs every year, mostly operating in Beijing and Shanghai, and 15 cities in Guangdong and Jiangsu provinces inspecting larger companies. In 2010 in Beijing, 65 out of 110 companies that were inspected were found to be unqualified for exemption.

National level inspections:

- At the end of 2012, the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation jointly developed a work management inspection.
- At the beginning of 2013, the Beijing Municipal Science and Technology Commission developed a work management inspection.
- As of December 31 2014, a number of ministries and the NHTC Work Management Leading Group had jointly cancelled the NHTC status of 189 companies.

With the huge amount of funding and tax incentives available for NHTCs, China's government is accordingly stringent in its regulation and inspection of companies applying for the benefits. It is essential for a company to be aware of the eligibility requirements and subsequent assessment involved. **Dezan Shira & Associates (http://www.dezshira.com/)** can help ensure that applicable enterprises structure their application correctly. To arrange a free consultation, please email our tax experts at **tax@dezshira.com (mailto:tax@dezshira.com)**.

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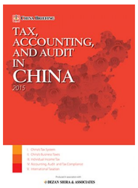

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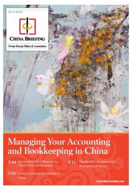

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In this issue of China Briefing, we discuss the difference between the International Financial Reporting Standards, and the accounting standards mandated by China's Ministry of Finance. We also pay special attention to the role of foreign currency in accounting, both in remitting funds, and conversion. In an interview with Jenny Liao, Dezan Shira & Associates' Senior Manager of Corporate Accounting Services in Shanghai, we outline some of the pros and cons of outsourcing one's accounting function.

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In this issue of China Briefing Magazine, we look at the challenges posed to manufacturers amidst China's rising labor costs and stricter environmental regulations. Manufacturing WFOEs in China should adapt by expanding their business scope to include distribution and determine suitable supply chain solutions. In this regard, we will take a look at the opportunities in China's domestic consumer market and forecast the sectors that are set to boom in the coming years.

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