

Taxation Rules and Subsidies for High and New Technology Enterprises

24 March 2017

Presented by Mr. John Poon
Director, Mazars



Agenda

1. Introduction to Mazars
2. PRC Tax Incentives for Technology Industry
3. High and New Technology Enterprise (HNTE) (高新技术企业)
4. Software Enterprise (SE) (软件企业)
5. Integrated Circuit Enterprise (ICE) (集成电路企业)
6. R&D Super Deduction (研发费用加计扣除)
7. Technology Transfer (技术转让)
8. Technological Advanced Service Enterprise (TASE)(技术先进型服务企业)
9. Subsidy from Local Government
10. Experience Sharing – Case Study
11. Q&A

Glossary

Abbreviation	Meaning
BPO	Business Process Outsourcing (技术性业务流程外包)
EIT	Enterprise Income Tax (企业所得税)
HNTE	High and New Technology Enterprise (高新技术企业)
ICE	Integrate Circuit Enterprise (集成电路企业)
IP	Intellectual Property (知识产权)
ITO	Information Technology Outsourcing (信息技术外包)
KPO	Knowledge Process Outsourcing (技术性知识流程外包)
MOF	Ministry of Finance (财政部)
MOST	Ministry of Science and Technology (科技部)
SAT	State Administration of Taxation (国家税务总局)
SE	Software Enterprise (软件企业)
TASE	Technological Advanced Service Enterprise (技术先进型服务企业)
VAT	Value Added Tax (增值税)



1. MAZARS

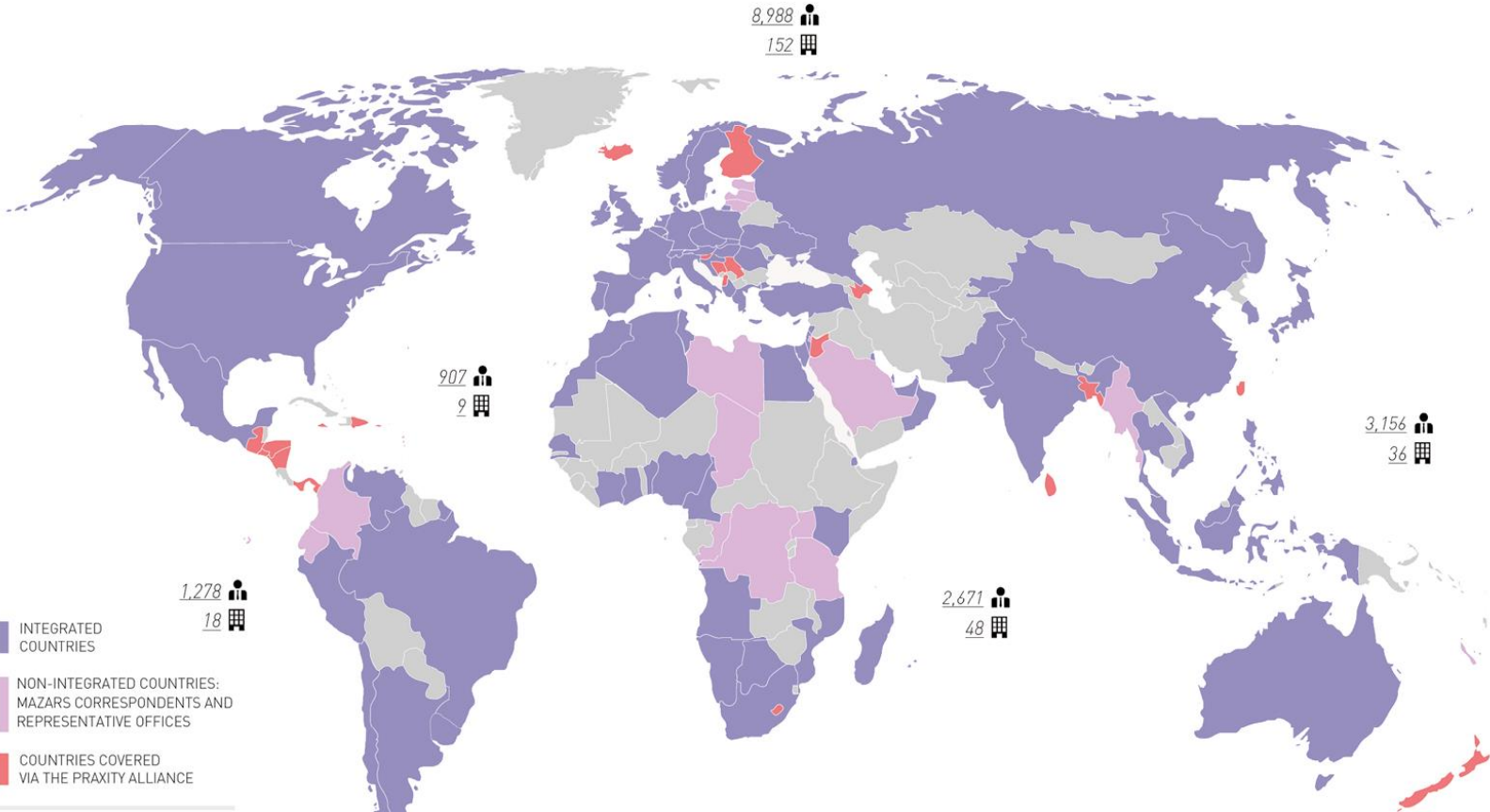
Mazars International



18,000
Professionals
 including **950**
Partners



270 offices in
77 integrated
countries



Mazars - Zhongshen Zhonghuan | facts and figures

Zhongshen Zhonghuan joined Mazars integrated partnership effective from Jan.1st 2016

25 locations in China

2800 + staff in total

470 + CICPAs

83 partners in China

Operating income 1.1Billion RMB in 2015/2016;

Serving 100 + listed companies

Serving 20 + large state-owned enterprises

Serving 1000 + international companies in China



● Mazars Main Offices in China – Beijing / Shanghai / Guangzhou

★ Other offices in China

Founding member of Praxity

Praxity is the world's largest alliance of independent accounting and consulting firms.



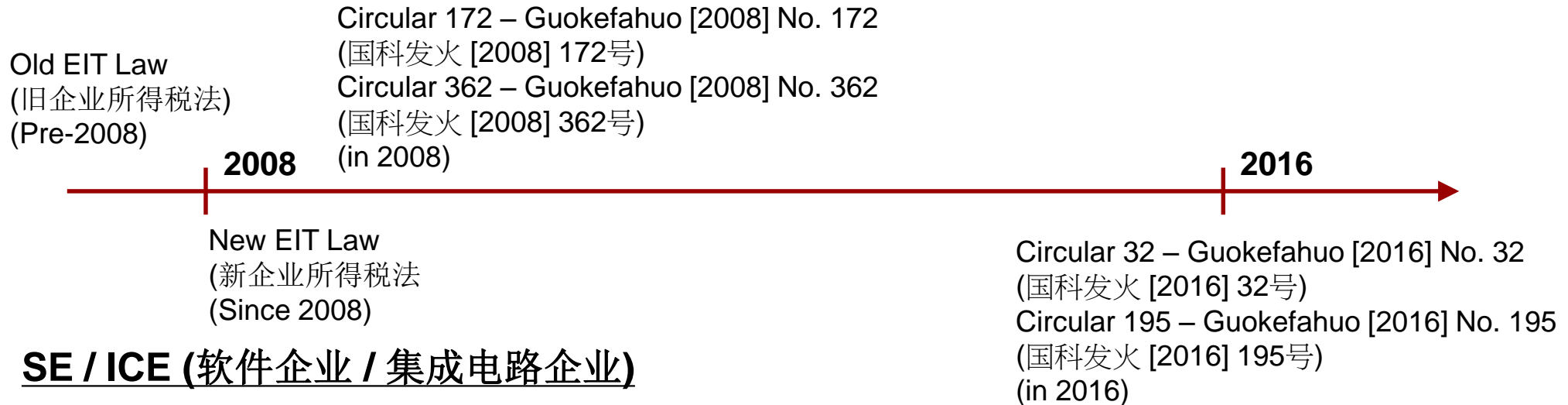
Combined turnover	USD 4.75 billion (EUR 4.5 billion)
Countries present in	103
Global member offices	635+
Participating firms	66
Employees worldwide	41,780+
Partners	3,450+



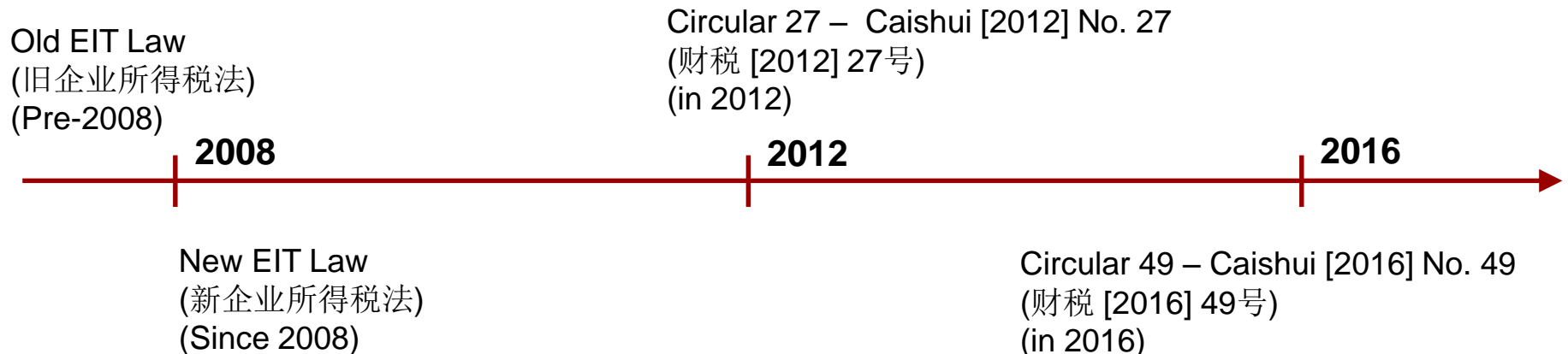
2. PRC TAX INCENTIVES FOR TECHNOLOGY INDUSTRY

Major event timeline

HNTE (高新技术企业)

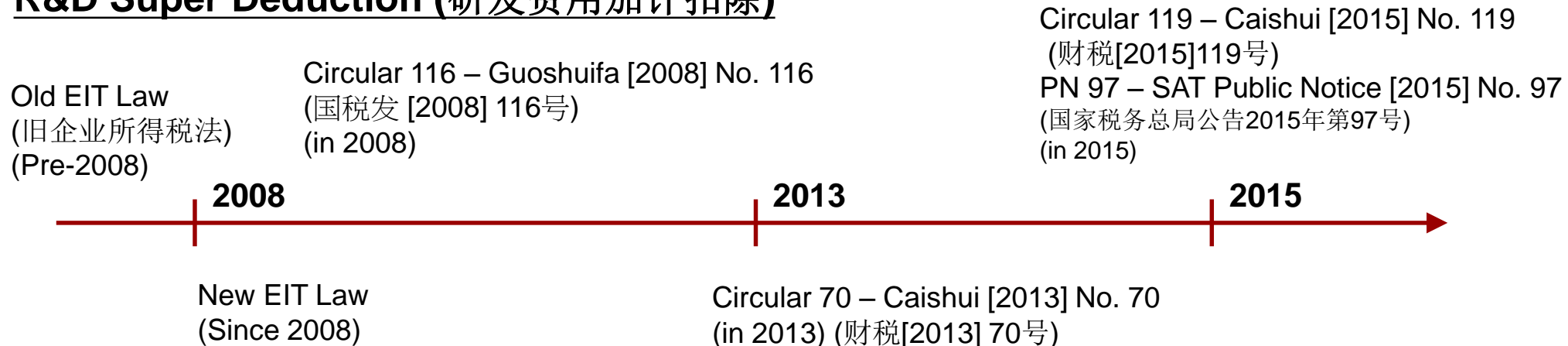


SE / ICE (软件企业 / 集成电路企业)

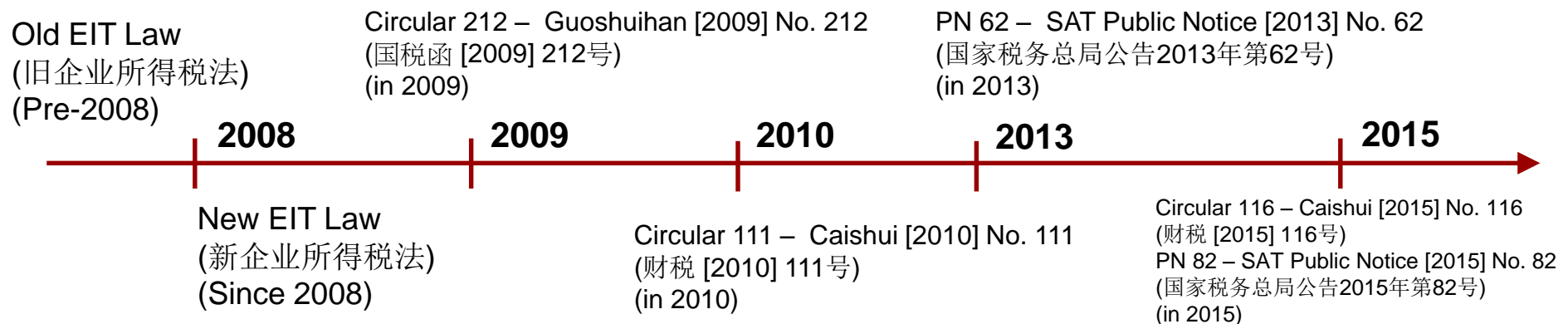


Major event timeline

R&D Super Deduction (研发费用加计扣除)

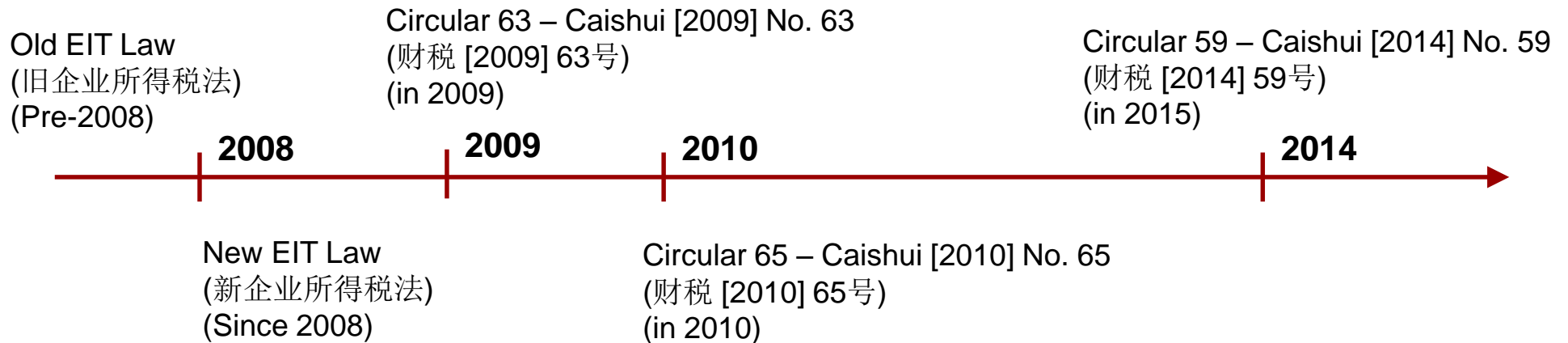


Technology transfer (技术转让)



Major event timeline

TASE (技术先进型服务企业)



History

➤ Pre-2008

- ❖ Old EIT Law
- ❖ Tax incentives by geographical location, e.g., coastal areas, Special Economic Zone (沿海经济特区), etc.
- ❖ Domestic enterprise vs foreign enterprise

➤ Since 2008

- ❖ New EIT Law
- ❖ Tax incentives by industry, nature of products / services, etc.
- ❖ Free Trade Zones (自贸区) – any special tax incentives?

EIT Law (2008 version)

- **Articles 27 & 28 - Highlights of industries / projects / activities with EIT incentives**
- ❖ Agriculture
- ❖ Basic infrastructure
- ❖ Environmental friendly, energy and water conservation
- ❖ Small enterprise

❖ **Technology**



I am a traditional
manufacturer / trader /
distributor / service
provider

HNTE? SE? ICE? TASE?

Too far from us?

**Maybe simpler or more reachable
than what you think!**



3. HNTE

HIGH AND NEW TECHNOLOGY ENTERPRISE
(高新技术企业)

HNTE – Latest development

Circular 195
(国科发火 [2016] 195号)

(June 2016)

Circular 32
(国科发火 [2016] 32号)

(January 2016)



高新技术企业

HNTE – Circulars 32 & 195

➤ Purpose

- ❖ Provide updated context in response to the changing business environment
- ❖ Include a catalog (“High-tech Catalog”, 国家重点支持的高新技术领域) listing out eligible industries / activities
- ❖ Clarify assessment criteria and administration matters

➤ Effective date: 1 January 2016



HNTE – Who is eligible?

➤ High-tech Catalog (300+ items)

- ❖ Electronic Information (电子信息)
- ❖ Biological and pharmaceutical technology (生物与新医药)
- ❖ Aviation and aerospace (航空航天)
- ❖ New materials (新材料)
- ❖ High-tech services (高技术服务)
- ❖ New energy and energy conservation (新能源与节能)
- ❖ Resources and environmental protection (资源与环境)
- ❖ Advanced production and automation (先进制造与自动化)



HNTE – Other criteria

Proven track record of business

- PRC incorporated (excluding HK, Macau & TW)
- Must be incorporated for more than 365 days

IP ownership

- Possession of self-developed IP
- Core technology applied is included in the High-tech Catalog
- IP registered with relevant authority

HNTE – Other criteria (cont'd)

Income from high-tech product / service

- >60% income of last year is derived from products / services mentioned in High-tech Catalog

Staff mix

- >10% R&D staff

HNTE – Other criteria (cont'd)

R&D expenditure

- >5% if last year turnover <RMB50mil
- >4% if last year turnover is >RMB50mil but <RMB200mil
- >3% if last year turnover is >RMB200mil
- >60% incurred within China

HNTE – Other criteria (cont'd)

Pass the innovation ability assessment

Compliant with safety, product quality and environmental regulations

HNTE – Qualification Procedure

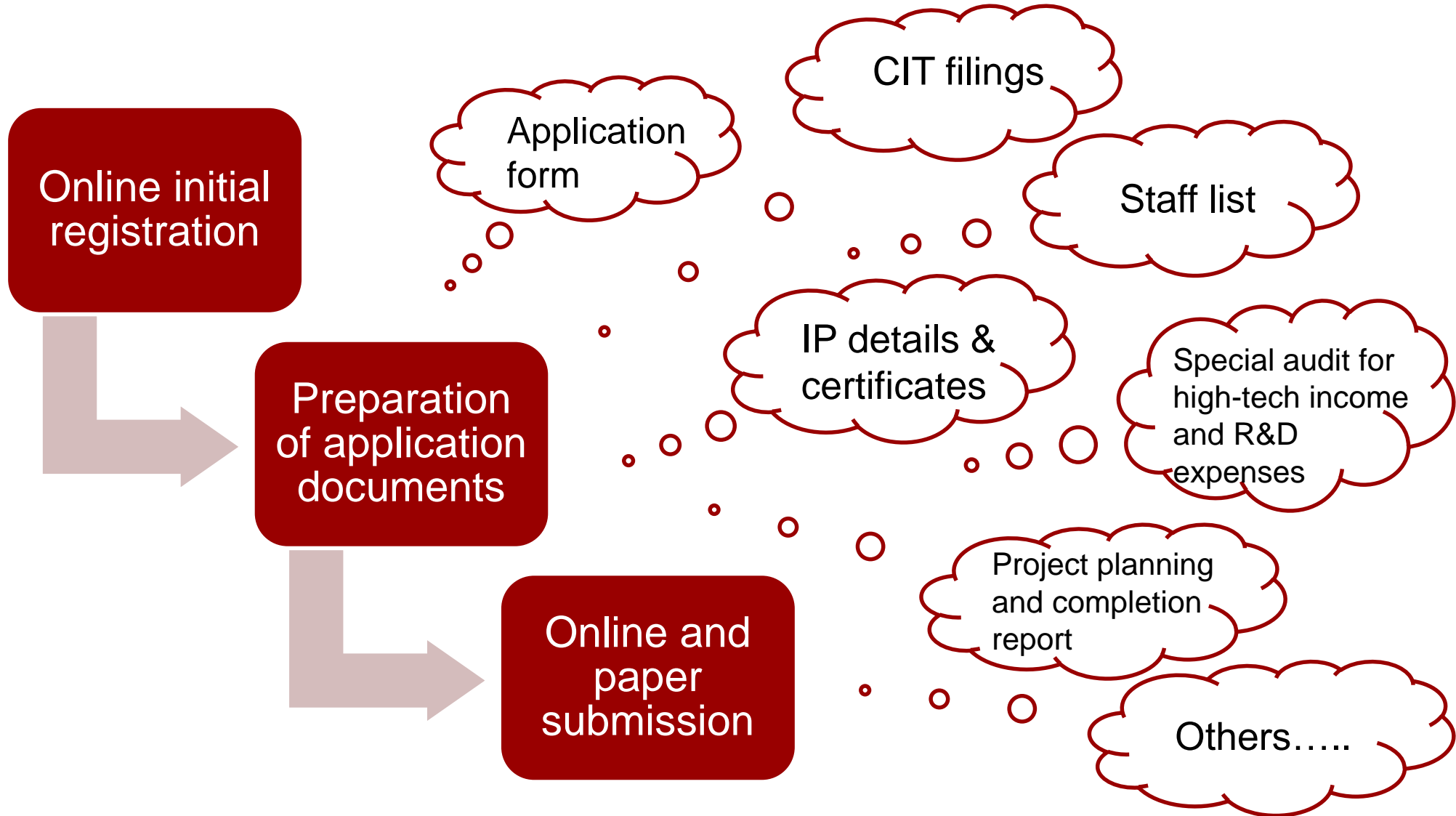
Application submitted to local MOST (科技部) office

Certificate issued by local MOST office

Record-filing with in-charge tax bureau

Follow-up administration

HNTE – MOST application



HNTE – Follow-up administration

1. Annual filing by May each year
2. Renewal for every 3 years

NON-COMPLIANCE



HNTE – Tax incentives

1. Reduced CIT rate @15%
2. Staff training expense deduction threshold @8%





4. SE

SOFTWARE ENTERPRISE (软件企业)

SE – Circular 49

➤ Purpose

- ❖ To simplify procedure for preferential tax treatment application
- ❖ Pre-approval by Software Association vs Record-filing with tax bureau
- ❖ Post-application tracking

➤ Effective date: 1 January 2015



SE – Criteria

Principal business activity

- Develop and sale of software product (service)

Staff mix

- >40% tertiary educated
- >20% R&D staff

SE – Criteria (cont'd)

R&D expenditure

- >6%
- >60% incurred within China

SE – Criteria (cont'd)

Income from software product / service

- >50% income from software product / service
- >40% income from self-developed software product / service
- or
- >40% income from software embedded product
- >30% from self-developed software embedded product

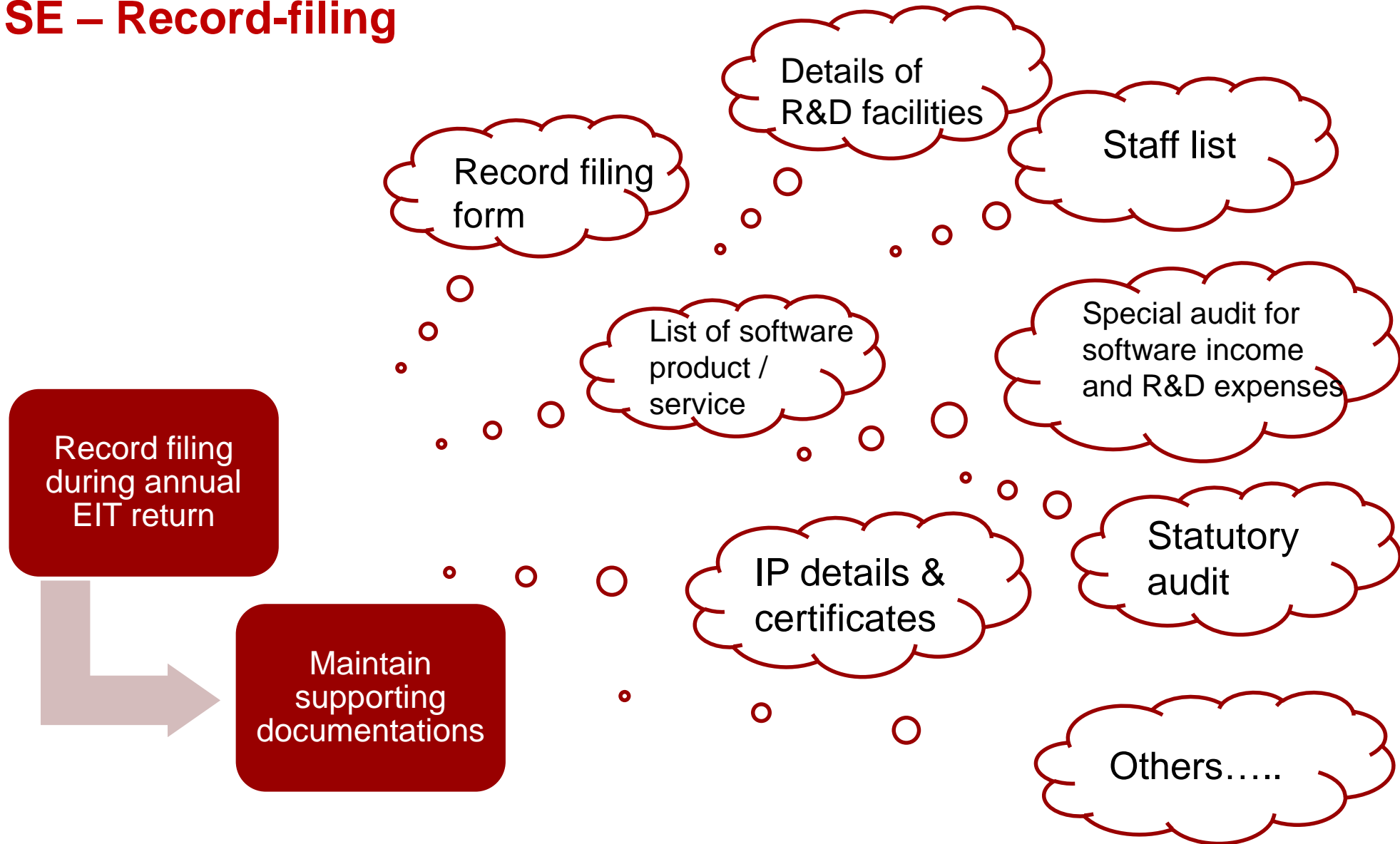
IP ownership

- Possession of registered software IP rights

Appropriate R&D facilities

Compliant with safety, product quality and environmental regulations

SE – Record-filing



SE – Follow-up administration

Generally, no follow-up action is required, but.....



SE – Tax incentives

EIT

1. 2-year EIT exemption, 3-year 50% EIT reduction (两免三减半)
2. Staff training expense – no limit on tax deduction
3. Accelerated amortization for purchased software (to 2 years)



SE – Tax incentives (cont'd)

VAT

4. VAT refund for portion in excess of 3%





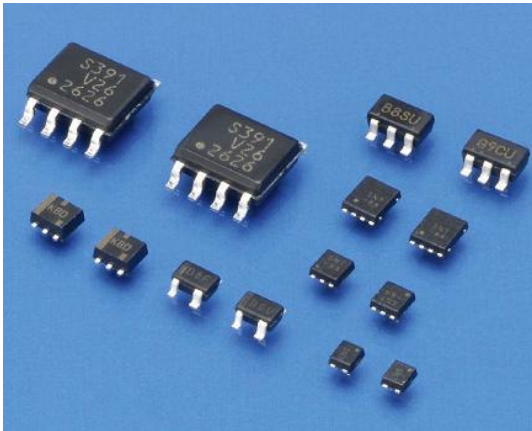
5. ICE

**INTEGRATED CIRCUIT ENTERPRISE (集成电路企业)
(MANUFACTURING / DESIGN)**

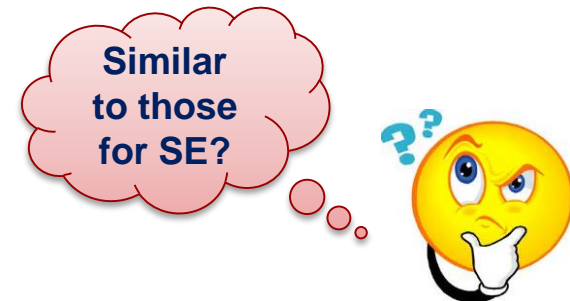
ICE – Latest development

Circular 49
(财税〔2016〕49号)

(May 2016)



ICE – Criteria



ICE – Criteria

Principal business activity

- Manufacture of single-chipped IC, multiple-chipped IC and mixed-signal IC
- or
- Design of IC

Staff mix

- >40% tertiary educated
- >20% R&D staff

R&D expenditure

- >5% for IC manufacturing
- >6% for IC design
- >60% incurred within China

ICE – Criteria

Income from IC product / design service

- >60% income from IC product
- or
- >60% income from IC design service
- >50% from self-developed IC design service

IP ownership

- Possession of registered IP rights

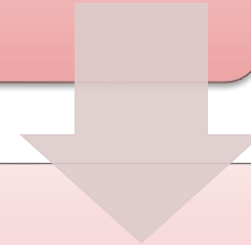
Appropriate R&D and manufacturing / design facilities

- Qualified manufacturing (e.g., ISO certified)
- Appropriate workstation, server, etc.

Compliant with safety, product quality and environmental regulations

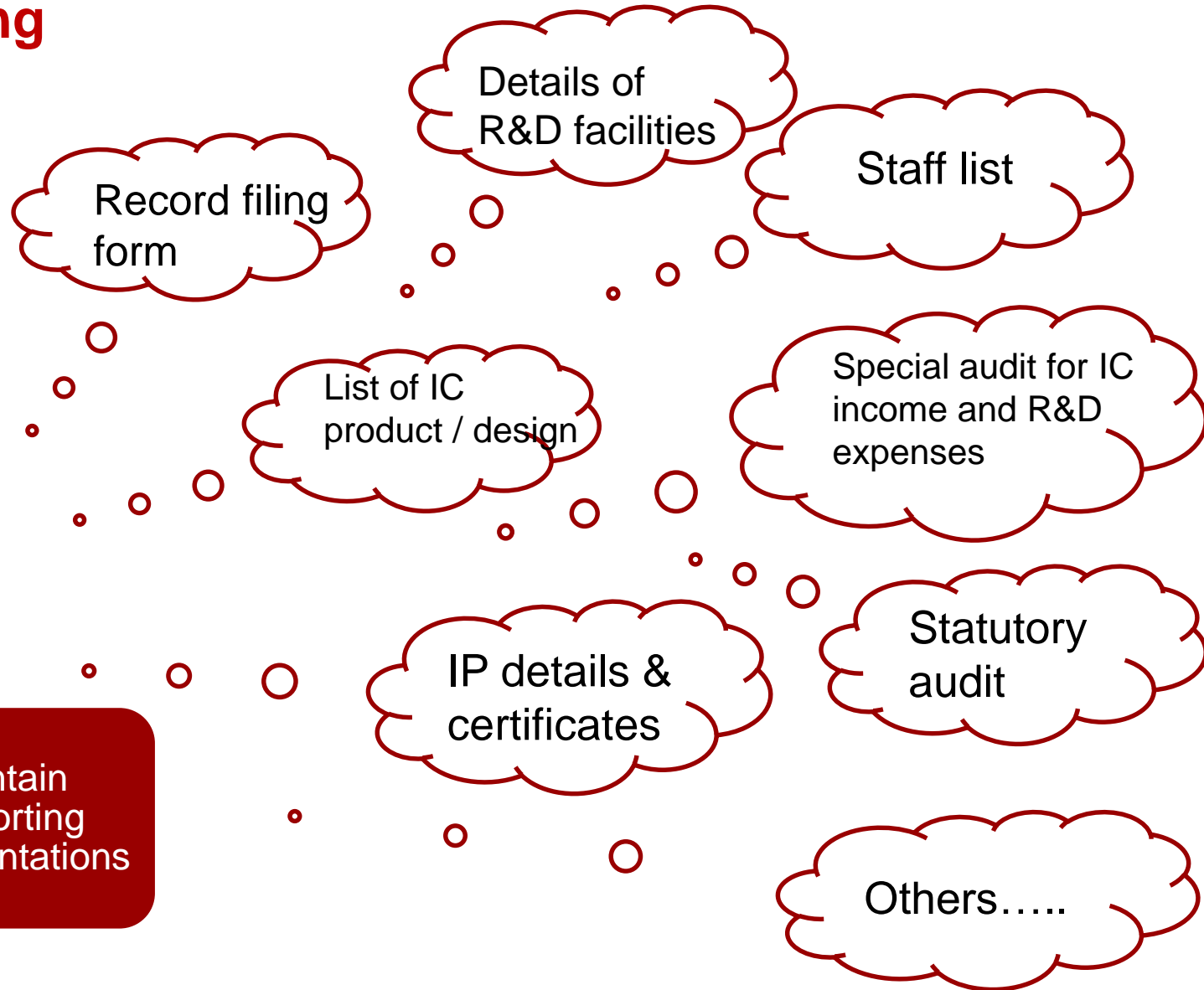
ICE – Qualification Procedure

Record-filing with in-charge tax bureau

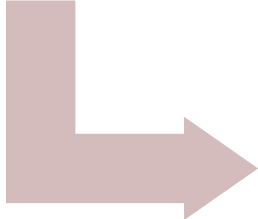


Follow-up administration

ICE – Record-filing



Record filing during annual EIT return



Maintain supporting documentations

ICE – Follow-up administration

Generally, no follow-up action is required, but.....

Similar to those for SE?



ICE- Tax incentives

For IC manufacturing adopting production technique <0.8um, and IC design
2-year EIT exemption, 3-year 50% EIT reduction

For IC manufacturing adopting production technique <0.25um
5-year EIT exemption, 5-year 50% EIT reduction

Staff training expense – no limit

Accelerated amortization for purchased software (to 2 years)

Accelerated depreciation for production equipment (to 3 years)





6. R&D SUPER DEDUCTION (研发费用加计扣除)

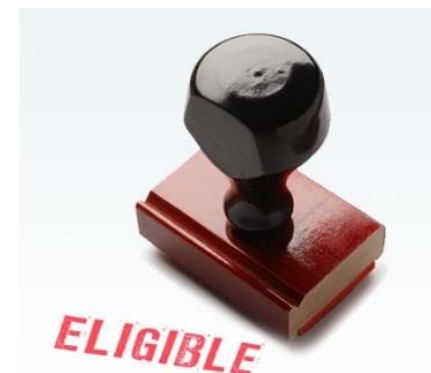
EIT – Super deduction for R&D costs (150%)

➤ R&D - definition

Systematic and continued activities for obtaining new knowledge in science and technology

Innovative application of science technology

Substantial improvement for technology or product / service



EIT – Super deduction for R&D costs (150%)

Activities / industries not qualified

Tobacco manufacturing

Hospitality and catering

Wholesale and retail

Real Estate

Leasing and commercial service

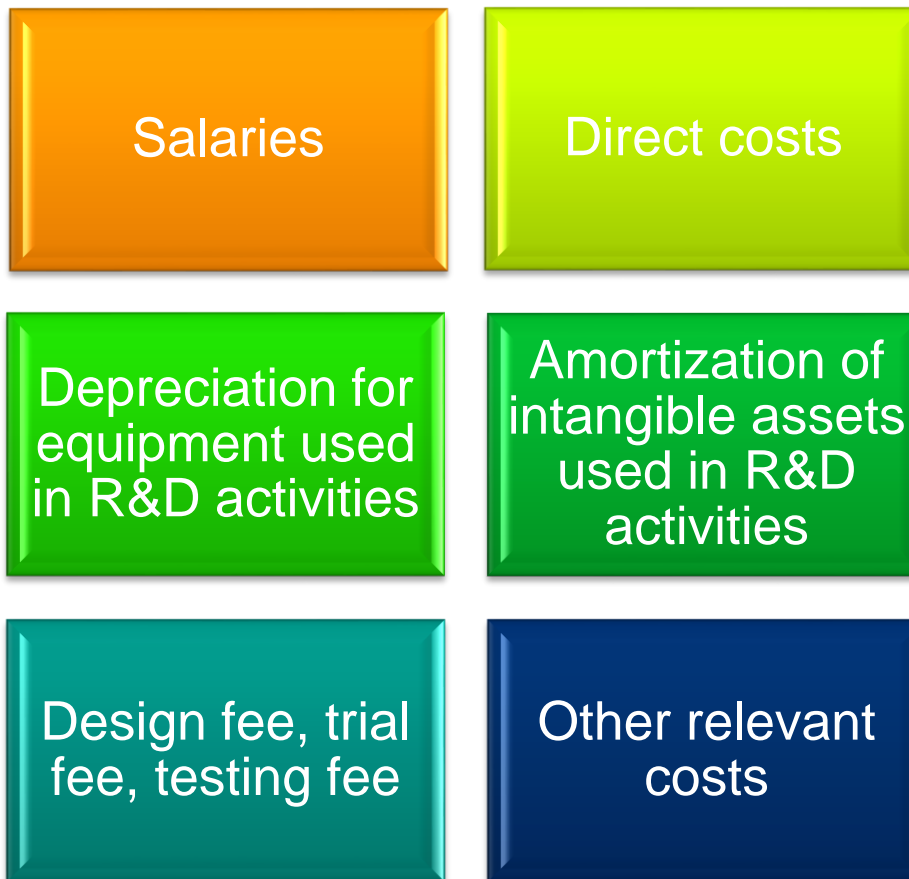
Entertainment

Other activities / industries specified by MOF / SAT



EIT – Super deduction for R&D costs (150%)

➤ Eligible costs



EIT – Super deduction for R&D costs (150%)

Costs not qualified

Conventional (regular) upgrade of product / service

Direct application of developed technology

After-sale support

Minor changes to existing product / design

Market surveys or relevant studies

Regular quality control, testing and analysis, repair and maintenance

Research in social sciences, arts or humanities



EIT – Super deduction for R&D costs (150%)

➤ Sub-contracting

R&D super deduction?

Fee payer



(but 80% only)

Sub-contractor



Fee payer (sub-contract to overseas party)



Example

	Base case (no tax incentive)	R&D super deduction	R&D super deduction for HNTE	R&D super deduction for SE
R&D expense (assumed)	1,000,000	1,000,000	1,000,000	1,000,000
Profit before tax (assumed)	3,000,000	3,000,000	3,000,000	3,000,000
Super deduction	0	500,000	500,000	500,000
Taxable profit	3,000,000	2,500,000	2,500,000	2,500,000
EIT rate	25%	25%	15%	Exempt
EIT	750,000	625,000	375,000	Exempt
Effective EIT rate	25%	20.83%	12.5%	0%

➤ **A tax saving of 12.5% for HNTE with R&D super deduction!!!**



7. TECHNOLOGY TRANSFER (技术转让)

Technology Transfer – Latest development



Circular 116
(财税〔2015〕116号)

(October 2015)

PN 82
(国家税务总局公告
2015年第82号)

(October 2015)

EIT exemption / reduction for income from technology transfer – Criteria



EIT exemption / reduction for income from technology transfer – Criteria

Tax resident enterprise

Technology is within the scope defined by MOF / SAT

- Transfer of IP ownership or 5+ years non-exclusive rights to use (i.e., licensing)
- Patent (including that for national defense), software, IC design, new plant species, new biological / pharmaceutical species
- Registered with appropriate authority

Approved by relevant authority

- Domestic transfer
- Overseas transfer

Income from technology transfer

Record-filing

EIT

Portion \leq RMB5 million

EMEMPT

Portion $>$ RMB5 million

**50%
OFF**

VAT

Whole income

**VAT
FREE**

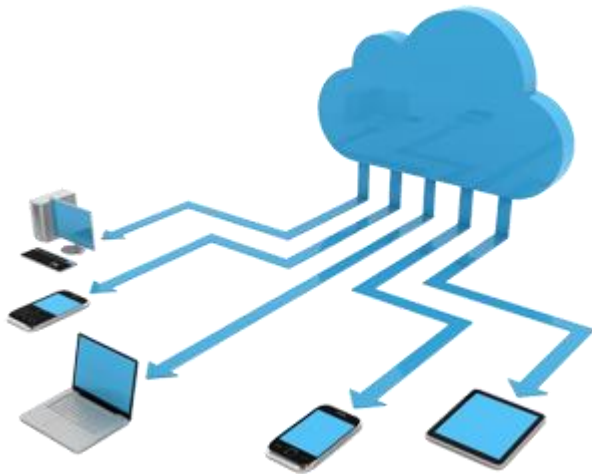


8. TASE

TECHNOLOGICAL ADVANCED SERVICE ENTERPRISE
(技术先进型服务企业)

TASE – Latest development

Circular 59
(财税 [2014] 59号)
(Oct 2014)



TASE – Eligible activities

Information Technology Outsourcing

- Software R&D
- Software technical service
- IC design
- IC and software testing platform
- Information system operation and maintenance
- Data technical service

Business Process Outsourcing

- Corporate business flow design
- Corporate back office service
- Corporate operation service
- Corporate supply chain management service

Knowledge Process Outsourcing

- R&D activities for other industries
- Data mining
- Others

TASE – Criteria

ITO, BPO, KPO
income

Income from
offshore
outsourcing
services

Staff mix

TASE – Qualification Procedure

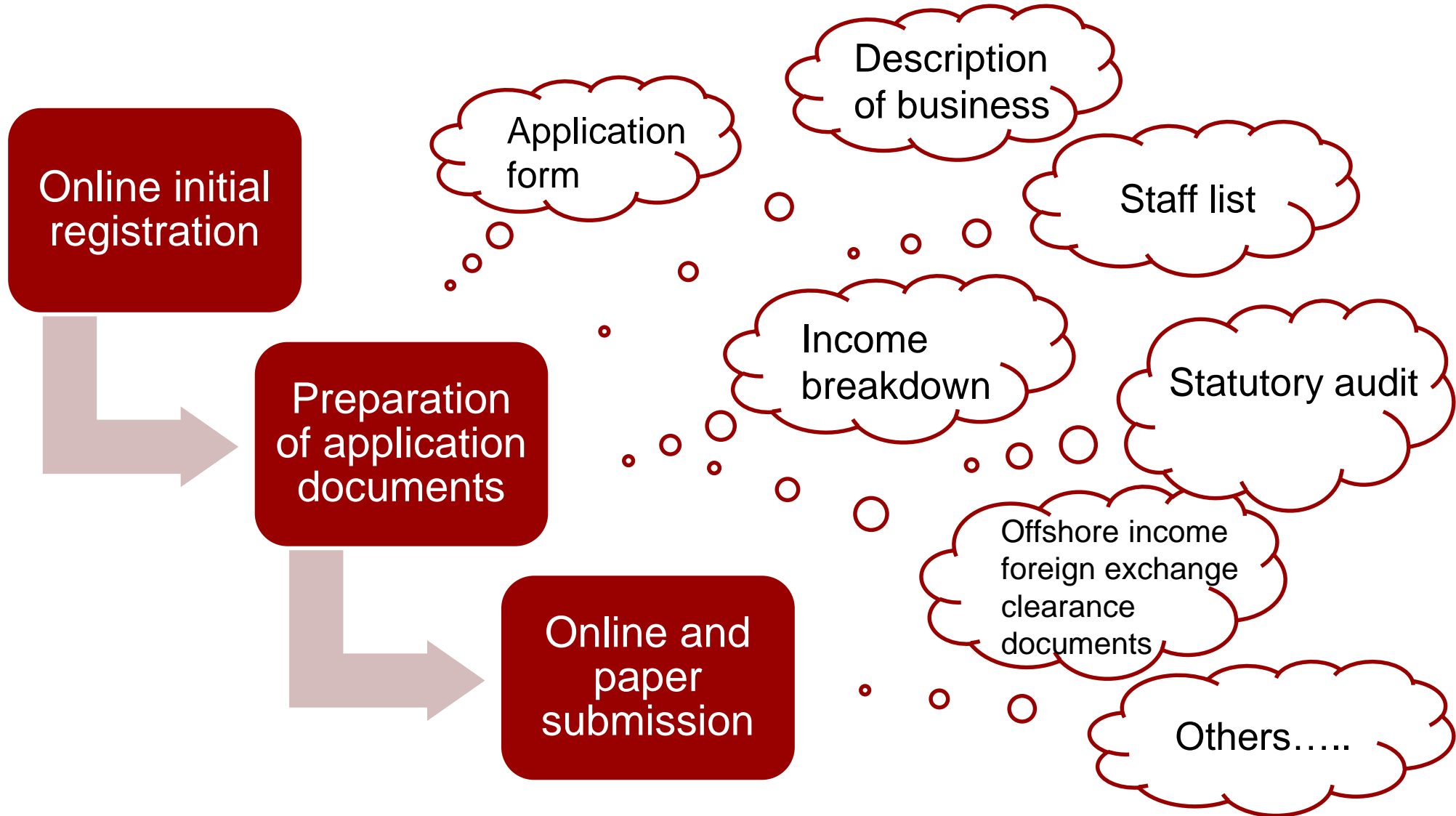
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Certificate issued by local MOST (科技部) office

Record-filing with in-charge tax bureau

Follow-up administration

TASE – MOST application



TASE – Follow-up administration

1. Renewal for every 3 years
2. Generally, no follow-up action is required, but.....

NON-COMPLIANCE



TASE- Tax incentives

EIT

1. Reduced CIT rate @15%
2. Staff training expense deduction threshold @8%

VAT

3. Zero VAT for offshore service





9. SUBSIDY FROM LOCAL GOVERNMENT

There may be more subsidies available than what you think



Beijing (highlights)

30% subsidy on eligible R&D cost – up to RMB5 million

80% subsidy on product insurance expense – up to RMB1 million

20% subsidy on turnover for high-tech product / service – up to RMB2 million

Partial VAT and CIT refund in designated science parks

Subsidy for listing – up to RMB2 million

Shanghai (highlights)

Subsidy on software project – up to 30% of project budget or RMB8 million

Partial VAT and CIT refund in designated science parks

Subsidy for listing – up to RMB1.5 million

Guangzhou (highlights)

5% to 10.5%
subsidy on R&D
cost

RMB200,000
subsidy for HNTE
applicant

RMB1 million
subsidy for
successful HNTE
applicant

Subsidy on
registered patent –
up to RMB40,000
per patent

Subsidy for listing –
up to RMB3 million

Shenzhen (highlights)

Subsidy for eligible
R&D cost – up to
RMB10 million

RMB100,000 subsidy
for successful
HNTE applicant

Subsidy for listing –
up to RMB1 million

Zhongshan (highlights)

Subsidy for project related to designated technology – up to RMB5 million

RMB200,000 subsidy for successful HNTE applicant

50% subsidy on insurance expense related to technology – up to RMB500,000

Subsidy for listing – up to RMB5 million

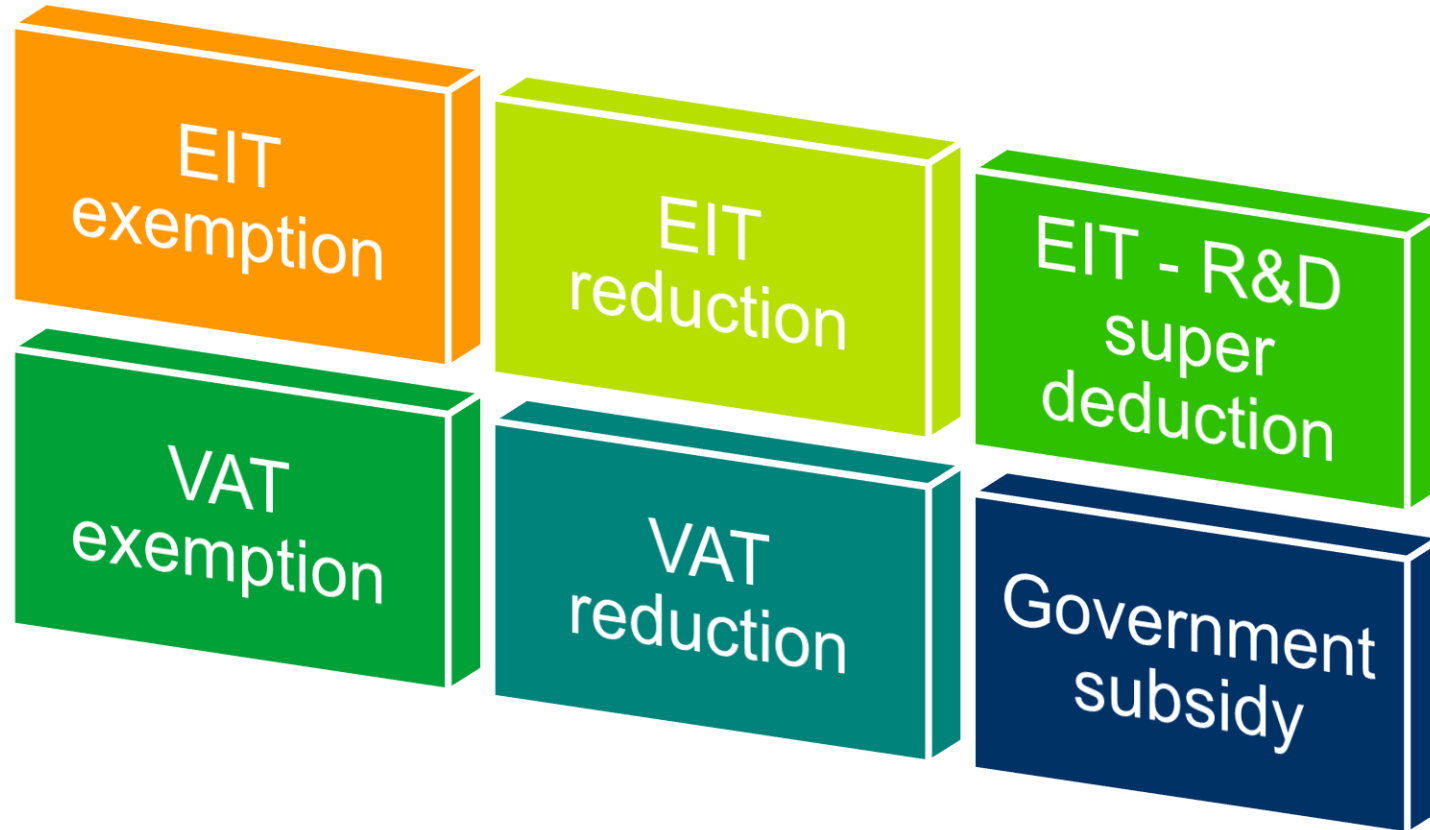
Foshan (highlights)

20% subsidy on
eligible R&D cost –
up to RMB10 million

RMB300,000 subsidy
for successful HNTE
applicant

Subsidy for listing –
up to RMB1 million

Summary - tax incentives available for technology enterprise





10. EXPERIENCE SHARING

CASE STUDY

A subsidiary of Hong Kong listed company

Development of mobile phone app

- **Small company – revenue of about RMB1 million**
- **Small team – <15 staff in total**
- **Small projects – R&D cost (mainly salaries) of about RMB50,000 - RMB100,000 for each project**

Lesson to learn – business scale does not matter as long as the HNTE criteria can be fulfilled

A subsidiary of Hong Kong listed company

Design and manufacture of internet of things (物联网) device, and other traditional device

- **Fairly large company**
- **Qualified for SE and HNTE in previous years**
- **Annual sales amount of software embedded products (i.e., the internet of things device) is barely below the threshold**
- **All other SE and HNTE criteria are fulfilled**

Lesson to learn – SE / HNTE must always pay attention to the criteria and make sure it will not fail any of them



11. Q&A

More questions? Feel free to ask
by email john.poon@mazars.hk or
by phone +852 2909 5663



Thank you

John Poon



John Poon Director - Tax Advisory Services

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Qualification

- Master of Science, Financial Engineering, The City University of Hong Kong
- Bachelor of Business Administration, Baruch College, The City University of New York, USA

Background

- John is a Tax Director of Mazars Hong Kong and has more than 20 years of tax and business advisory experience. John started his career as a tax consultant in an international accounting firm in 1993. He was stationed in Shanghai from 2004 and 2013, working extensively on China tax and business advisory projects.
- John has extensive experience in advising multinational and China tax matters and assisted clients in numerous global and regional projects, including investment holding structure planning, operating model structuring, outbound investment planning, tax health checks, IPO structure planning etc.
- John has served clients from a board range of industries including retailing, manufacturing, wholesaling, real estate development, etc. and provided diversified services to different companies.
- John also has the following skills:
 - Tax Planning
 - Corporate Reorganization
 - Mergers and Acquisitions
 - Tax Due Diligence