



Securing tax incentives across China

**KPMG engineers and tax
professionals help create value**

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For more than 10 years, the Chinese Government has been encouraging enterprises to increase product and process improvement, and develop new knowledge. A good understanding of government incentives can lead to significant tax savings for your business.

KPMG engineers and tax professionals can assess your tax incentive eligibility criteria, and help your business manage risk and generate greater value from these incentives.

Tax incentives available in China

- **150% Super Deduction** – For eligible activities and expenditure
- **Reduced Corporate Income Tax (CIT) rate of 15% for:**
 - High and New Technology Enterprises (HNTE) status
 - Advanced Technology Service Enterprise (ATSE) status
- **Customs Duty and VAT exemption/Refund** for the purchase of research & development (R&D) equipment
- **Tax concessions on technology transfers**

	Key highlights	KPMG support
01	No limit to the size of the claim	KPMG can help assess the scope of the projects and document/trace the costs
02	Wide range of R&D incentives available	KPMG can help reduce disruption to your business
03	Product and process improvement may qualify	Our engineers can help identify the eligible activities
04	Scope of activities beyond pure R&D	KPMG tax and legal professionals can help manage risk and compliance

Overview of R&D tax incentives

Five separate R&D tax incentives are available in China. Below, we summarise the eligibility criteria and key benefits of each:

150% Super Deduction

Eligible R&D activities for companies resident in China:

The company should consistently undertake systematic activities with clear objectives in order to:

- Obtain new knowledge in science and technology
- Creatively apply new knowledge in science and technology
- Make substantial improvements in technologies, products (services) and processes
- Incur qualifying R&D expenses that include:
 1. Direct salaries, social insurance and housing fund, as well as service fees paid to external R&D personnel
 2. New product design fees, new technical programming fees, and direct expenses for technical materials and translation
 3. Direct costs of materials, fuel and power
 4. Direct depreciation or rental of equipment
 5. Direct amortisation of intangible assets including software
 6. Development and manufacturing costs of moulds and technical instruments used for interim tests or trials
 7. On-site test expenses of mineral exploration technology
 8. Appraisal and certification expenses in relation to R&D-related revenues
 9. Other eligible expenses not specifically excluded

Benefits:

- A 150% tax deduction on qualified R&D expenses (Super Deduction) that are incurred during the year, which equates to a net benefit of 12.5% for eligible expenses incurred

Super Deduction	Normal Deduction
R&D expense for the year = RMB 100	R&D expense for the year = RMB 100
Actual deduction: RMB 150	Actual deduction: RMB 100
Net tax saving: 12.5% (50% x 25% CIT rate)	



What qualifies for the 150% Super Deduction?



High and New Technology Enterprises (HNTE) status

Eligibility criteria:

The company should:

- Be resident in China for more than one year
- Own the intellectual property for the key technologies of products
- Fall within one of the following eight areas:
 1. Electronic information technology
 2. Biological and new pharmaceutical technology
 3. Aviation and aerospace technology
 4. New material technology
 5. High technology service industry
 6. New energy and energy conservation technology
 7. Resources and environmental technologies
 8. Innovation for high and new technology (HNT) in traditional industries
- Have sufficient R&D and science & technology personnel
- Meet the R&D expense as a percentage of turnover requirement
- Generate sufficient profits from HNT products and services

Benefits:

- Reduction in CIT rate from 25% to 15% for three consecutive years:

HNTE	Non-HNTE
Profit before tax = RMB 100	Profit before tax = RMB 100
CIT rate: 15%	CIT rate: 25%
CIT = RMB 15	CIT = RMB 25

Advanced Technology Service Enterprise (ATSE) status

Eligibility criteria:

The company should:

- Be resident in China
- Conduct work in at least one of the specified advanced technology services (ATS) industries below:
 1. Information technology outsourcing (ITO)
 2. Business process outsourcing (BPO)
 3. Knowledge process outsourcing (KPO) – with advanced technology or a strong R&D capacity
- Be registered and operate in one of the model cities: Beijing, Changsha, Chengdu, Chongqing, Dalian, Daqing, Guangzhou, Hangzhou, Harbin, Hefei, Jinan, Nanchang, Nanjing, Shanghai, Shenzhen, Suzhou, Tianjin, Wuhan, Wuxi, Xi'an and Xiamen
- Have ≥ 50% of employees holding tertiary degrees
- Have > 50% of total revenue for the year derived from advanced and new technology services
- Have > 35% of total revenue for the year derived from offshore outsourcing services

Benefits:

- Reduction in CIT rate from 25% to 15%
- Education fees of < 8% of total salaries can be deducted for CIT purposes; the remainder can be carried forward
- Revenue derived from offshore outsourcing services can apply Value Added Tax (VAT) zero rating

ATSE	Non-ATSE
Profit before tax = RMB 100	Profit before tax = RMB 100
CIT rate: 15%	CIT rate: 25%
CIT = RMB 15	CIT = RMB 25

Customs Duty and VAT exemption/ Refund for purchases of R&D equipment

Eligibility criteria:

- Qualified foreign-invested R&D institutes and domestic R&D institutes
- Specified R&D equipment

Benefits:

- Specific R&D equipment imported by qualified foreign-invested R&D centres is exempt from Customs Duty, VAT and Consumption Tax
- Input VAT in relation to domestically manufactured equipment purchased by qualified domestic R&D institutes and foreign-invested R&D centres is refundable

Technology transfers

Eligibility criteria:

- Revenue derived from technology transfer, technology development/ consultancy and related technical services

Benefits:

- VAT exemption on revenue is available
- The profit from the transfer of qualified technology is eligible for exemption/ reduction for CIT purposes as follows:
 - The first RMB 5 million of profit in a tax year is exempt from CIT
 - If profit is more than RMB 5 million, it is eligible for a 50% CIT reduction

Technology transfer concession	Non-technology transfer concession
Profit on technology transfer: RMB 8 million	Profit on technology transfer: RMB 8 million
CIT: $(\text{RMB } 8 \text{ million} - \text{RMB } 5 \text{ million}) \times 25\% \times 50\% = \text{RMB } 375,000$	CIT: $\text{RMB } 8 \text{ million} \times 25\% = \text{RMB } 2 \text{ million}$

Frequently asked questions

How do you determine eligible R&D activities?

How do you calculate eligible R&D expenses?

What documents are needed to prepare a claim?

What is the claim process and how long does it take?

What happens if a claim is audited?

How can I benefit from tax incentives when purchasing R&D equipment?

How do I qualify for VAT and CIT exemptions/reductions for technology transfers?

Please contact your KPMG R&D specialist if you would like answers to these common questions.

How KPMG can assist

- Work with engineers and scientists to identify eligible R&D activities
- Determine qualifying R&D expenses
- Streamline daily operations
- Review and prepare compliance documentation
- Liaise with government authorities and help defend audits
- Establish procedures for ongoing review of R&D activities and expenses
- Help manage transfer pricing compliance

Why KPMG?

- KPMG scientists and engineers understand your needs
- A proven track record of claim approvals across key industries
- Trustworthy audit defence and strategy
- Flexible service options
- Strategic R&D tax incentive advice
- Hassle-free outsourced R&D service – we can manage the claim process for you
- Minimal disruption to your business – we work to your schedule and requirements
- Tax risk managed – open and transparent assessment of your entitlements
- Competitive advantage through our proprietary tools and methodologies, which can increase the efficiency and quality of your work
- Experience with complex R&D claims
- A specialist team of R&D professionals focused on generating value from incentives

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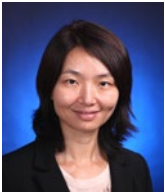


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