

CHINA FOCUS

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Driving Innovation in China

Innovation is at the core of China's current development plans. 'Made in China 2025' and the 13th Five Year Plan (2016-2020) set out to steer the economy away from mass manufacturing and unsustainable industries, through technologically driven growth. The foreign companies we support share mixed views on what this innovation push will mean for their business in China: Will it boost demand for foreign know-how or will it favour domestic players? Since the ultimate goal of 'Made in China 2025' is to make China's own industry competitive in new and high-tech sectors,

its policies often favour domestic and foreign companies asymmetrically.

In this issue of China Focus, Fiducia takes a pragmatic approach to the matter. We look at how foreign companies are already benefiting from China's innovation push and its related tax incentives, especially the 'High and New Technology Enterprise' (HNTE) program.



In this Issue:

- China's Innovation Incentives
- First-Hand Experience with HNTE
- Applying for HNTE Status
- Business Opportunities for Foreign Innovators

China's Innovation Incentives

Since 2015, when Made in China 2025 was launched, China has strengthened its tax incentive programs to encourage the development of new knowledge, products, and processes among domestic and foreign enterprises. These incentives are an opportunity for innovation-driven foreign companies to generate savings and value. Yet this opportunity is often foregone due to a lack of understanding of available programs, their requirements, and how to meet them. Fiducia's tax professionals provide support in assessing a company's eligibility for tax reductions, preparing successful applications, and ensuring compliance.

Made in China 2025: Implications for Foreign Companies

Opportunities

- ▶ Growing demand for foreign equipment and expertise
- ▶ Opportunities for collaborative R&D
- ▶ Government prioritisation of Intellectual Property (IP) rights enforcement
- ▶ **Tax savings for innovation-driven companies**

Threats

- ▶ Rising competitiveness of Chinese companies
- ▶ Government funding, regulations, and public tender procedures favouring domestic competitors in key industries
- ▶ Growing cybersecurity and IP infringement risks

Available Tax Incentives

Advanced Technology Service Enterprise (ATSE) Status

Qualified enterprises with eligible business scopes - such as IT, industrial design, or supporting services for the film industry- which are located in designated pilot cities, can benefit from:

- ▶ A reduced Corporate Income Tax rate of 15%, as opposed to the standard rate of 25%
- ▶ Tax deductible education fees

R&D Super Deduction

Companies in traditional and new industries can benefit from:

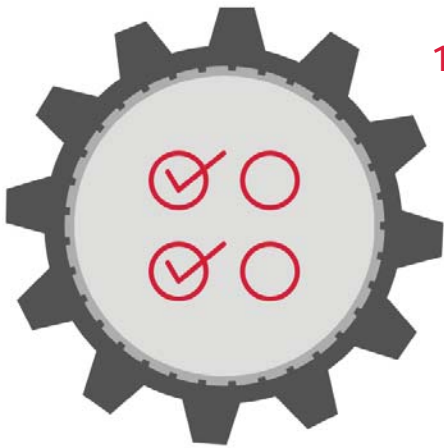
- ▶ 150% tax deduction on eligible R&D expenses incurred during the year
- ▶ Amortisation of capitalised intangible assets developed through R&D based on 150% of their total value

High and New Technology Enterprise (HNTE) Status

Qualified companies in government encouraged sectors can benefit from:

- ▶ A reduced Corporate Income Tax rate of 15%, as opposed to the standard rate of 25%

(See page 3 for more details on HNTE eligibility criteria and application process)



1. Determine Eligibility

Assess whether your business:

- ▶ Has been registered as a resident enterprise for 1+ years
- ▶ Offers innovative products/services within the government's encouraged industries
- ▶ Owns the intellectual property of its core technology
- ▶ Has a large enough R&D expenditure (3-5% of the company's total annual sales income, depending on annual income level)
- ▶ Has high-tech related operations that account for 60% or more of total revenue
- ▶ Has 10% or more of its staff dedicated to R&D



2. Prepare Documentation

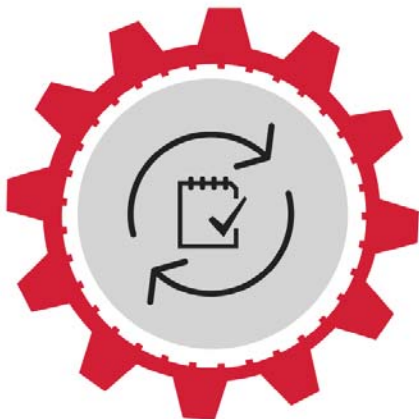
Collect all necessary records to prove that your enterprise meets the requirements mentioned in Step 1, such as:

- ▶ Audited financial statements for the last 3 years, including a special audit report on R&D expenses
- ▶ CIT returns for the last 3 years
- ▶ Proof of revenues derived from high-tech products/services in the last year



3. Submit Application

- ▶ Apply through the HNTe Company Assessment and Administrative Website
- ▶ Wait for the HNTe Assessment Committee's revision and approval



4. Ensure Ongoing Compliance

Once certified:

- ▶ Report information such as IP Status and R&D expenses annually
- ▶ Report relevant company changes - such as relocation or restructuring - within 3 months of the change
- ▶ Submit at least 5 R&D project reports annually to the Science and Technology Bureau for approval
- ▶ Be prepared for random investigations
- ▶ Set up a specialised R&D account in your books
- ▶ Be informed about revisions to the HNTe Working Guidance
- ▶ Liaise with local authorities



5. Reapply After 3 Years

- ▶ HNTe licenses expire after 3 years, so reapplication is a must
- ▶ Reassess your enterprise's eligibility according to the most updated criteria
- ▶ Start preparing reapplication documents ahead of time

If you need support at any stage during your HNTe application, or wish to assess your company's eligibility for other tax incentives, please contact our experts at contact@fiducia-china.com.