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百达律师事务所

Tax Policies for Technically Advanced Service Enterprises

By Tina Zhang



On 5 November 2010, the Ministry of Finance, the State Administration of Taxation, the Ministry of Commerce, the Ministry of Science and Technology and the National Development and Reform Commission jointly issued a circular (Cai Shui [2010] No. 65) (the Circular) on enterprise income tax policies for technically advanced service enterprises.

According to the Circular, during the period from 1 July 2010 to 31 December 2013, certain tax preferential policies shall apply to qualified technically advanced service enterprises in 21 pilot cities: Beijing, Tianjin, Shanghai, Chongqing, Dalian, Shenzhen, Guangzhou, Wuhan, Harbin, Chengdu, Nanjing, Xi'an, Jinan, Hangzhou, Hefei, Nanchang, Changsha, Daqing, Suzhou, Wuxi and Xiamen.

The Circular lowers the enterprise income tax rate for an entity recognised as a qualified technically advanced service enterprise from the standard 25 percent to 15 percent. Moreover, although non-qualifying enterprises can only deduct employee education expenses that reach up to 2.5 percent of taxable income, the maximum deductible amount for a qualifying enterprise is 8 percent, and the excess portion can be carried forward and deducted in the following tax year.

This status will only be awarded if the enterprise meets all of the following requirements:

- (i) engages in one or more technically advanced service businesses specified in the Scope of Recognition for Technically Advanced Service Business (Trial) attached to the Circular, which include software research and development services, software technical services, design of integrated and electric circuits, information systems operation and maintenance services or other technically advanced outsourcing services;
- (ii) has its registered address and operating address in a pilot city;
- (iii) is a legal person that has not engaged in illegal behaviour in respect of management of import and export, finance, taxation, foreign exchange or customs within the last two years;

- (iv) at least 50 percent of its employees have a college degree;
- (v) the income derived from the technically advanced service business specified in the Scope of Recognition for Technically Advanced Service Business (Trial) is at least 50 percent of the total income for the respective year; and
- (vi) the income derived from its offshore service outsourcing business constitutes at least 50 percent of total income for the respective year. Income derived from "offshore service outsourcing business" refers to the income received from offshore companies based on engagement contracts for providing services specified in the Scope of Recognition for Technically Advanced Service Business (Trial).

Relevant science and technology departments of the governments in the pilot cities are in charge of the qualification of technically advanced service enterprises.

Lastly, the Circular repeals a similar circular on tax policies for technically advanced service enterprises issued in April 2009 (Cai Shui [2009] No. 63), effective from 1 July 2010.

BEITEN BURKHARDT

Suite 3130, 31/F, South Office Tower
Beijing Kerry Centre
No. 1 Guang Hua Road
Chao Yang District
Beijing 100020
China

www.beitenburkhardt.com