SINO-BRIDGE Consulting Group

China Business Advisory

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Expansion of Zero Tax Rate Coverage for Export Services

The Ministry of Finance ("MOF") released Caishui [2015] No. 118 on 30th October 2015 extending the application of zero tax rate for certain services rendered by domestic enterprises and individuals to overseas enterprises effective from 1st December 2015:

- Production and distribution of radio, film and television programs (works);
- Technology transfer services, software services, electrical circuitry design and testing services, information system services, business process management services and energy management contract services with respect to overseas contract objects; and
- Offshore outsourcing services including information technology outsourcing, business process outsourcing and knowledge process outsourcing.

The above exported services are currently VAT exempted instead of subject to zero tax rate (currently only international transportation services and R&D/design services provided to overseas enterprises are subject to zero tax rate) which means that the input VAT is currently not recoverable (input VAT incurred in relation to zero tax rate services is recoverable).

Wholly Foreign Owned Enterprises ("WFOEs") and Sino-Foreign Joint Venture Enterprises ("JVs") providing such services to its overseas group companies will be able to enjoy zero tax rate starting from the effective date. Application to the tax authorities is required to enjoy zero tax rate and Sino-Bridge will be able to assist if required.

Upgrading Tax Benefits for Eligible Research and Development Expenditure

MOF, the State Administration of Taxation ("SAT") and Ministry of Technology ("MOT"), on 3rd November 2015, jointly released Caishui [2015] No. 119, which will become effective from 1st January, 2016, to extend the scope of research and development ("R&D") activities and expenses that are eligible to the R&D Super Deduction (additional 50% to be deducted against profit before tax or additional 50% to be added to capital expenditure for tax purposes).

Currently, only eligible R&D activities relating to projects recognized as "High and New Technology Area receiving National Support" and "High Technology Industrialization Area for Priority Development" by the authorities can enjoy accelerated deduction. Announcement No. 119 introduced the concept of negative list which carries the implication that all other R&D activities meeting the relevant R&D definition would be eligible for the R&D Super Deduction and therefore in essence has substantially expanded the scope of eligible R&D expenditures. The following are the key elements of the negative list specified in Announcement No. 119:

- Excluded industries
    - Tobacco manufacturing
    - Hotel, catering and restaurant
    - Wholesale, distribution and retail
    - Real estate
    - Leasing and business services
    - Entertainment

- Excluded activities
    - Routine upgrade of products and services
    - Direct application of scientific and research results
    - Technical support provided to customers as commercialized products/services

- Repeat or simple change of existing products, services, technology, materials or technological process
- Market research, efficiency or management process study
- Normal quality control, testing and analysis, repairs and maintenance in relation to industrial/services operations
- Social science, arts or cultural research

Announcement No. 119 also specifically made clear that expenditures incurred in relation to the following innovative design activities for new, innovative and disruptive products are eligible for the R&D Super Deduction:

- Multimedia software and comic games software development
- Digital comic and game design and production
- Housing and construction engineering design, scenery and garden engineering design projects
- Industrial design, multimedia design, comic and derivative products design and model design

And the following expenditures are new additions to be allowed for the R&D Super Deduction introduced by announcement No. 119:

- Hiring outsourced research personnel
- Inspection fees paid for testing new products to be produced
- Other expenditures directly related to R&D activities (including professional consulting fees, insurance paid for R&D activities, costs for intellectual property rights application, and costs for travelling and meetings), not exceeding 10% of the total R&D expenditure.

WFOEs and JVs can enjoy accelerated deductions on the same basis as domestic enterprises. However, Announcement No. 119 specified that R&D expenditures paid to overseas enterprises or individuals are not eligible for accelerated deductions.

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China's Ageing Population and Relaxed Birth Control Policy

On 29th October 2015, the Communist Party finally decided to end the "one-child policy" that has been blamed, at least partly, for the ageing population in China. It is however doubtful whether this change in policy can be effective in tackling the ageing population problem. In the case of urban couples, many will choose to have no child or only one child as a result of the rising costs of housing, education and healthcare.

Although the change in policy may not encourage couples to have more children, enterprises should not overlook and underestimate the potential business opportunities and threats that may arises as a result of this change.

Service Highlight

China has managed to sustain strong and long time economic growths and is still one of the most attractive markets to investors in other parts of the world. With more than two decades of dedicated operation in China, Sino-Bridge is in a privileged position and keen to help investors to exploit their full potentials from their business presence in China. Our Marketing Executive, Ms. Kimme Chan, would like to hear from you at (852) 3579 8745 or kimmechan@sinobridge-consulting.com to learn of what we could do for you to this end.

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