



China Tax Alert

Issue 17, July 2018

R&D Expenses Super Deduction rate to be increased to 75% for all enterprises

Regulations discussed in this issue:

Statement by Premier Li
Keqiang at the State
Council executive
meeting on 23rd July
2018

At the State Council executive meeting on 23rd July 2018, Premier Li Keqiang announced that the 75% super deduction rate for eligible research and development (R&D) expenses will be applied to all kinds of enterprises going forward. Currently, this rate is applied to science and technology-related small and medium-sized enterprises ("SMEs") only. It is anticipated that the expansion of the incentive scope will result in an annual tax decrease of RMB 65 billion (USD 10 billion) according to preliminary estimation.

The R&D Expenses Super Deduction incentive has existed for 10 years since 2008. In recent years, access to the incentive has been progressively expanded. For instance, prior project verification and record-filing requirements have been abolished. Expenses covered by the super deduction have also been expanded to cover R&D outsourcing expenses, both for domestic and foreign contractors, and stock option expenses. The super deduction rate was already increased from 50% to 75% for science and technology-related SMEs in 2017; the increased rate is now expanded to all enterprises.

KPMG has also observed that while relaxing the rules, the tax authorities have also been strengthening follow-up inspection. Therefore, we suggest that enterprises that intend to apply for the preferential policy should undertake the following:

- Review the enterprise's existing R&D project and expense management procedures to see if they meet all requirements.
- Enhance internal controls over the conduct of R&D projects and associated documentation.

As the details of the new policy have not yet been released it remains to be seen whether the increased super deduction rate can be applied retroactively and whether the scope of deductible expenses will be further expanded. KPMG will provide further updates on subsequent developments.

For more information about the R&D “super deduction” policy, you may access the following KPMG publications

- ❑ [China Tax Alert: Notice of the State Administration of Taxation on Further Implementation of the R&D Expenses Super Deduction Policy \(Issue 6, February 2017\)](#)
- ❑ [China Tax Alert: 150% Super Deduction Regulation Update \(Issue 3, January 2016\)](#)
- ❑ [China Tax Alert: R&D Super Deduction Regulation Update \(Issue 31, November 2015\)](#)
- ❑ An article entitle *Better smart than lucky: China R&D incentives 2.0 in China Looking Ahead (7th edition)*



KPMG observations:

Enterprises should pay close attention for further updates on the R&D super deduction and consider how best to access the preferential policy. We suggest enterprises to seek advice from professionals on R&D project documentation and management, in order to secure the tax benefit and minimize tax risk.

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