

Clarification on Corporate Income Tax (CIT) incentives for Advanced Technology Service Enterprises (ATSE)

Regulations discussed in this issue :

- Clarification on CIT incentives for Advanced Technology Service Enterprises, CaiShui [2014] No. 59, jointly issued by the MOF, SAT, MOC, MOST and NDRC on 8 October 2014 (Circular 59)
- Notice Regarding Further Promotion of Development in the Service Outsourcing Industry, GuoBanHan [2013], No.33, issued by the General Office of State Council on 5 February 2013 (Circular 33)
- Circular on Issues Relating to CIT for Advanced Technology Service Enterprises, Caishui [2010] No.65, issued by the MOF, SAT, MOC, MOST and NDRC, on 5 November 2013 (Circular 65)

In line with the *Notice Regarding Further Promotion of Development in the Service Outsourcing Industry* (GuoBanHan [2013], No.33), the Ministry of Finance (MOF), the State Administration of Taxation (SAT), the Ministry of Commerce (MOC), the Ministry of Science and Technology (MOST) and the National Development and Reform Commission (NDRC) jointly issued Circular 59. Regarding the CIT incentives for ATSE, Circular 59 updates Circular 65 by extending the incentive expiration date to 31 December 2018 and relaxing recognition criteria on income derived from offshore outsourcing service. This may enable more enterprises to enjoy the tax incentives, which may stimulate the development of ATSE, enhance technological innovation and technical service capability, as well as increase comprehensive competitiveness of the service industry in China.

Circular 59

Circular 59 renews incentive policies for ATSE in respect of the following three aspects:

- 1 Update the incentive period which was originally from '1 July 2010 to 31 December 2013' to '1 January 2014 to 31 December 2018'
- 2 Nullify the provisions on 'No illegal acts of enterprises in relation to import and export business management, financial management, tax management, exchange management, and customs management in recent two years'
- 3 Lower the minimum income percentage derived from offshore outsourcing for the current year from '50%' to '35%'.

Other than the above changes, Circular 59 retains other provisions of Circular 65, including the provisions on the scope of ATSE recognition.

Circular 59 took effect on 1 January 2014. Enterprises shall apply for the CIT incentives for ATSE according to the new recognition criteria since then.

KPMG's observations

In order to promote the development of outsourcing service industry and improve technological innovation and technical services, China has introduced CIT incentive policies for ATSE since 2009. Recognised ATSE may enjoy preferential CIT rate at 15% and 8% of allowable deduction rate for staff education expenses for CIT purpose. Circular 65 and Circular 59 focus only on CIT incentives while in accordance with Caishui [2013] No.106, ATSE may further apply for VAT incentives for technical services within the scope of ATSE recognition. Up to now, the incentive policies for ATSE have been revised several times. The recognition criteria are relaxed, e.g. the minimum income percentage derived from advanced technology service to total income reduced from 70% to 50% and that of offshore outsourcing service income to total income is down from 50% to 35%.

In 2013, the General Office of State Council issued a reply under Guobanhan [2013] No. 33. The Reply extends the incentive expiration date for ATSE incentive to 31 December 2018. However, as Circular 65 became invalid on 1 January 2014, there was no specific administrative measure for Validation Working Groups to implement in 21 model cities. Consequently, some of the model cities suspended recognition of new applicants. The release of Circular 59 has addressed this by extending the incentive period. Shanghai and Xiamen immediately released local notices for ATSE recognition of 2014, requiring applicants to complete their online applications by 30 November 2014.

Enterprises which are located in 21 model cities, particularly in the cities where local notices for recognition of 2014 have not yet announced shall stay alert to any latest news published by local authorities and be well-prepared for applications to enjoy the tax incentives in 2014.

Circular 59 lowers the minimum income percentage derived from offshore outsourcing service for the current year from 50% to 35%. Given this adjustment, for enterprises which did not apply for the tax incentives due to failure to satisfy the criteria on the percentage of offshore income, we advise them to conduct self-evaluation as soon as possible to determine whether they can meet the recognition criteria under Circular 59. Moreover, as the recognition criteria for High-New-Technology Enterprises may be tightened, service enterprises may wish to assess their own status and explore the most eligible tax incentives.

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