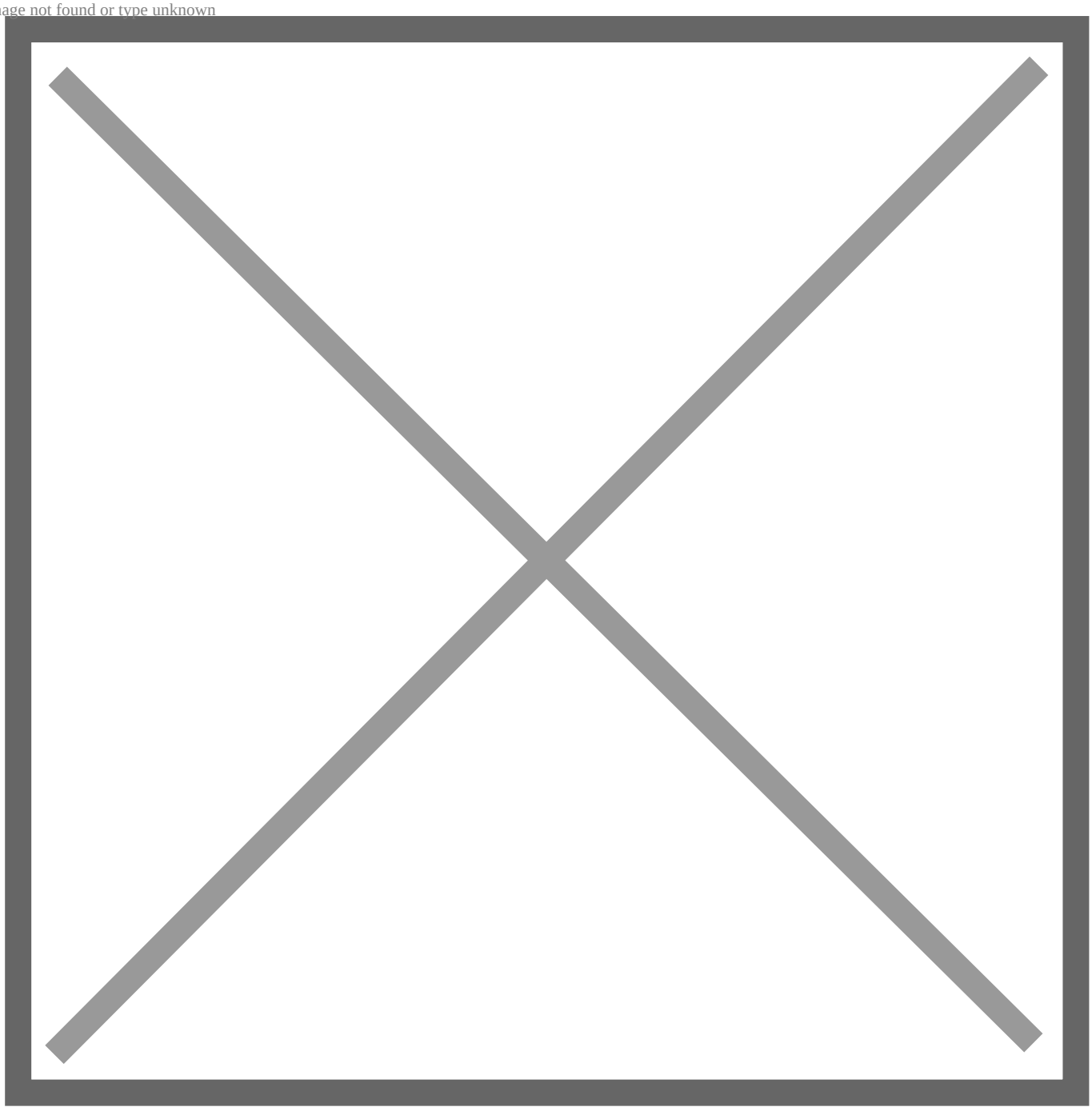
Changes in the Conditions for Accreditation of High-Tech Enterprises in China

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High-tech enterprises registered in mainland China can now apply for a preferential corporate income tax ("CIT") rate of 15% (compared to 25%) if meeting certain requirements stated in the Measures for Administration of Accreditation of High-Tech Enterprises (the "Measures").

The move, effective from 1 January 2016, has been made to improve industry upgrade and provide stronger policy support and better administration over technology enterprises, especially high-tech SMEs. Key points you need to know:

1. No more exclusive licensing

Only enterprises with ownership of the intellectual property serving core technological support through independent R&D, assignment, acceptance of gift, merger and acquisition etc. may apply for accreditation to be a high-tech enterprise.

This change is to deal with part abuse of the system by some companies who did not own core independent intellectual property yet benefitted from the preferential tax treatment by signing exclusive licensing agreements and then being accredited as high-tech enterprises. The change helps encourage technology innovation which serves the real purpose of the Measures.

2. Lower conditions for accreditation as high-tech enterprises

- Less strict quotas

The ratio of technical personnel to total employees has been lowered from "more than 30%" to "no less than 10%". It is no longer mandatory for technical personnel to "have specialized degrees and higher qualifications". There is no longer a quota on the ratio of R&D personnel to total employees.

- Lower R&D expenditure levels for the past three accounting years

The percentage of R&D expenditure per total sales revenue for an enterprise with sales revenue of less than CNY 50 million in the past year has been lowered from 6% to 5%.

These changes make it easier for a technology SME to get accredited as a high-tech enterprise and enjoy the 15% preferential CIT rate.

3. Better post-qualification administration

- Filing annual CIT returns

The Measures now require the submission of annual CIT returns for the past three accounting years.

- Additional requirements on annual reporting

High-tech enterprises are required to carry out annual reporting via the High-Tech Enterprise Accreditation Management Network before the end of May each year, to report on their development status including intellectual property, technical personnel, R&D expenditure and operations revenue. Failing to file the annual report for two successive years leads to the cancellation of the high-tech enterprises qualification.

- More time for reporting of changes

The time limit for reporting significant changes related to accreditation conditions has been extended from 15 days to 3 months. No detailed definition of “significant changes” has been given in the Measures (Version 2016). It depends on the implementation of the Measures in practice or implementing rules possibly issued in the future.

These measures give the authorities the administrative power to maintain supervision over the operation of high-tech enterprises in a more reasonable way.

For more detailed information about the revised Measures, visit:
http://www.most.gov.cn/tztg/201602/t20160204_123994.htm

If you have any questions for this rule, contact our Advice Centre.