

China alert

Tax and regulatory developments

TAX

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New tax incentives for service outsourcing businesses

In Brief

- Government authorities have announced tax incentives and recognition criteria for advanced technology service enterprises (ATSEs).

Relevant regulations discussed in this issue:

Circular on Tax Policies Concerning Advanced Technology Service Enterprises, Caishui [2009] No.63, issue by the Ministry of Finance (MOF), the State Development and Reform Commission (SDRC), the State Administration of Taxation (SAT), the Ministry of Science and Technology (MST) and the Ministry of Commerce (MOFCOM) on 24 April 2009 (Circular 63)

Background

To implement the incentive programmes proposed on 15 January 2009 by the State Council, the MOF, the SDRC, the SAT, the MST and the MOFCOM have jointly formulated tax incentives for ATSEs and clarified the eligible service scope and recognition criteria.

Tax incentives

Qualified ATSEs established in pilot service outsourcing cities can enjoy the following tax incentives, which are valid during the period from 1 January 2009 until 31 December 2013.

- Preferential corporate income tax rate (CIT) of 15 percent
- Pre-CIT deduction of actually-incurred staff education charges, up to a limit of 8 percent of the total payroll
- Business tax exemption for offshore outsourcing service income

Eligible service scope

ATSEs in the following services can enjoy the aforesaid tax incentives

- Information Technology Outsourcing (ITO)
- Business Process Outsourcing (BPO)
- Knowledge Process Outsourcing (KPO)

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Recognition measures

To enjoy these tax incentives, ATSEs must meet all of the following criteria:

- Engage in one type or more of the advanced technology services prescribed above.
- Register and operate in a pilot service outsourcing city.
- Bear a legal person qualification without any violation in import and export, finance and taxation, foreign exchange and customs administration in the past two years and enjoy a stable business growth. Adopt advanced technology or possess strong development capability.
- More than 50 percent of employees hold a college degree or above.
- Income from advanced technology services accounts for more than 70 percent of the total income of that year.
- Possess relevant international qualification certificates (including development capability and capability maturity model, capability maturity model integration (CMMI), IT service management, information security management, security environment for service providers, ISO quality assurance certification, human resource management certification, etc.).
- Have concluded service contracts with overseas customers and such offshore income shall not be lower than 50 percent of annual income.

Under a previous programme trialed in Suzhou Industrial Park from 31 December 2006, ATSEs had to qualify as a high-tech enterprise before being able to enjoy the preferential CIT rate of 15 percent. By contrast, Circular 63 does not require companies to have a high-tech enterprise qualification, and lowers the offshore outsourcing service ratio from 70 percent (under the old policy) to 50 percent of annual revenue. It also exempts business tax from service outsourcing income earned from overseas.

KPMG's opinion

Service outsourcing enterprises should examine whether they can meet the ATSEs qualification. For application purposes, qualified enterprises should abide by the administrative measures and application schedule announced by the responsible local authorities.

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