



Taxcast 思享

How to enjoy hassle-free R&D incentives?

Lisa Li, a tax partner of Deloitte China Tax and Business Advisory, shares 3 case to assist you master the drills in leveraging your R&D efforts.

Transcript

Lisa Li:

Hello, and welcome to *Deloitte Taxcast*. I'm Lisa LI, a tax partner from **Deloitte China**.

Most of my clients have been enjoying R&D incentives including super deductions and other benefits entitled per their High-new Tech Enterprise (HNTE) Status. Some consider the procedure relatively easy while others perceive differently. There are sophisticated requirements to be eligible for such benefits, and if one simply entitles himself to the benefits based on self-assessment, the company might be at risk. What's your perception on this? Today, I will talk about the issues and pain points you may experience during the process by quoting three examples and hopefully this may offer you some ideas to reassess your business from a strategic perspective and leverage your R&D efforts smartly.

Example 1:

Recently, a client came to me and said that after they completed the settlement and payment of annual enterprise income tax on May 31 this year, they received a notice from the tax authority that queried on their application for super deductions. And they need to cooperate with the science and technology department for subsequent appraisal. The client asked me: what should I do?

In fact, after the implementation of (Cai Shui [2015] No. 119), the tax authorities usually refer to the science and technology department for evaluation when there is a different perception on whether an R&D project qualifies for super deduction. My suggestion is that companies should carefully review their projects, and pay particular attention to whether the relevant wordings and contents in the relevant project documents fully and accurately reflect the innovativeness and advancement of the project. Unnecessary misunderstandings caused by some inappropriate expressions should be avoided. Be prepared for the project appraisal.

Example 2:

A client who has several HNTEs in the same group approached me recently for advice. It has difficulties in having these entities to all meet the conditions of HNTE status, especially the requirement that the R&D expenses must reach certain percentage (i.e., 3% - 5%) of the revenue. But if the entities cannot maintain the HNTE status, the group's tax cost will significantly increase. How to solve this issue?

I suggest they first ask themselves - is it essential to keep so many HNTEs in one group? If not, the company can reconsider the functionality of these entities and keep only one to two HNTEs. If yes, they may need a plan to meet the requirements through business model optimization (including intra-group R&D model optimization and sales function splitting). In either case, companies need to pay special attention to their transfer pricing policies. Simultaneously, they can consider introducing systems to monitor the relevant financial indicators involved through automation.

Example 3:

A client's CFO came to me and said they had been enjoying R&D super deductions and HNTE benefits for several years. However, as tax regulations tightened, they were a bit restless. Why?

Because management of the R&D projects was not in place.

In the past, when enjoying super deductions, the R&D department did not know which projects met the tax requirements and what factors used in apportioning everyday expenses. The finance department was screening R&D activities to collect and account for R&D expenses. The enterprise hopes we can sort out the R&D management process, establish an R&D management system, and develop guidelines suitable for tax management, realizing the interconnection of data between the R&D and financial systems so that R&D documents are generated automatically.

By introducing these cases, you already have an answer to the question I raised at the beginning. It is not difficult to enjoy R&D-related incentives. Still, we must pay attention to three aspects. That includes the requirements for R&D projects, R&D expenses, and R&D documentation. In the current economic environment, we sincerely hope that the enterprises who are qualified for R&D incentives can meet these requirements, fully enjoy the tax incentives, and unleash potential resources to combat challenges.

Thank you for tuning into *Deloitte Taxcast*. You may find more episodes via the tax cast portal on [Tax and Business Advisory | Deloitte China | Services, reports, and insights](#). Should you have any questions or topics you like to learn, please feel free to contact me, Lisa Li, or drop us a line via the contact page on the website.

Have a great day!

Host for this episode



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