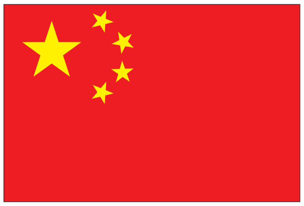
China



China offers a 150% super deduction and favorable tax rates for qualifying companies.

Background

The enterprise tax rate is 25%. China offers a variety of tax and other R&D incentives. The R&D incentives are offered in the form of income tax deductions and reductions in Enterprise Income Tax (EIT) rates.

Nature of incentives

Super deduction: A tax deduction equal to 150% of the qualifying R&D expenses is available. Tax losses attributable to R&D super deduction claims can be carried forward up to five years.

Rate reduction: A reduced 15% enterprise tax rate is available for companies granted High and New Technology Enterprise (HNTE) status. HNTE status must be applied for and renewed every three years.

Qualified newly established HNTEs in special zones often are granted a tax holiday.

HNTE companies are eligible for a 150% super deduction for qualified R&D expenses in addition to the reduced enterprise tax rate.

The reduced rate of 15% also applies to Technology Advanced Service Enterprises, i.e., enterprises that are located in designated cities, derive more than 50% of their annual revenue from technologically advanced services and meet certain other requirements. This incentive has been extended through 31 December 2018.

Tax exemption: A value added tax (VAT) exemption/ zero-rated treatment for certain R&D services performed for foreign entities is also provided. Moreover, a VAT exemption for offshore outsourcing services has been extended through 31 December 2018.

R&D centers that have qualified foreign investment may be eligible for an exemption from import duty, VAT and consumption tax on the import of equipment and other R&D assets. This incentive is available through 31 December 2015.

R&D centers may claim a refund of VAT paid on the purchase of Chinese domestic equipment. This incentive is available through 31 December 2015.

Qualified private non-enterprise technology companies may be eligible for an exemption from import duty, VAT and consumption tax on the import of items for scientific R&D use.

Tax incentives for technology/software companies:

- The first CNY 5M of income from qualified technology transfers is exempt from EIT.
- Income from technology transfers in excess of CNY 5M is taxed at a 50% reduced EIT rate.
- Newly established software companies often are granted tax holidays.
- Taxable software companies may be granted a business tax exemption on qualified income.
- Qualified software companies may be eligible for an exemption of import duties on self-used equipment and materials.

Eligible industries and qualifying costs

The Chinese government provides the following list of eight state-encouraged industries that are considered in awarding HNTE status:

- Electronic information technology
- Biological and new medical technology
- Aviation and space technology
- New materials technology
- New energy and energy conservation technology
- High technology service industry
- Resources and environmental technology
- Transformation of traditional industries through high-new technology

Qualified activities include the development of new technology, new products, and new production techniques. Qualifying expenditure includes staff costs, direct costs, supplies, depreciation and amortization, design costs, equipment installation costs, intangible asset amortization, and contracted R&D costs.

IP and jurisdictional restrictions

Less than 40% of the R&D expenses (including subcontracting R&D costs) qualifying for the HNTE incentive may be incurred outside China. The IP must be located in China.

In determining whether to grant approval for the super deduction, the authorities may consider whether IP will be retained in China, but this is not required by law.

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Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction and tax exemption	1. 150% super deduction for the qualifying R&D expenses. 2. VAT exemption/zero-rated treatment for certain R&D services performed for foreign entities. 3. Corporate tax rate for companies granted HNTE status is reduced to 15%. 4. Newly established technology and software companies receive a tax holiday (and new established HNTEs in certain provinces may receive tax holidays). 5. EIT exemptions for certain qualified technology transfers. 6. Qualified domestic and foreign-invested R&D enjoy exemption on import duty, VAT and consumption tax on imports, and VAT refund on purchase of Chinese domestic equipment.	Generally, government approval is needed for all government incentives. HNTE status must be renewed every three years.	Tax losses attributable to R&D super deduction claims can be carried forward up to five years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Less than 40% of the activities qualifying for the HNTE status may occur outside of China.	No	IP must be located in China for HNTE status. In determining whether to grant approval for the super deduction, the authorities may consider whether IP will be retained in China, but this is not required by law.	High and New Technology Enterprise fields: 1. Electronic Information Technology; 2. Biological & New Medical Technology; 3. Aviation & Space Technology; 4. New Materials Technology; 5. New Energy & Energy Conservation Technology; 6. High Technology Service Industry; 7. Resources & Environmental Technology; and, 8. Transformation of Traditional Industries through High-New Technology.