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Tax incentives on purchases of Research & Development (R&D) equipment

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In order to encourage scientific research, technological development activities and to promote scientific advancement, the newly promulgated Cai Shui [2009] No.115 further extends preferential import tax treatment to foreign-invested Research and Development centers. The Circular also clarifies that qualified domestic-invested and foreign-invested R&D organizations shall be entitled to VAT refunds on purchases of certain domestically manufactured equipment.

I. The Ministry of Finance, the General Administration of Customs and the State Administration of Taxation jointly issued Decree No. 44 in 2007, indicating that qualified domestic R&D centers set out in Decree No. 44 shall be exempt from import tax on purchases of certain R&D equipment. These R&D centers should satisfy the following requirements according to their establishment time:

1. R&D centers established before 30th September 2009:

- R&D investments: For R&D centers set up for less than 2 years: the minimum total investment (for legal entities) or total R&D investment (for internal R&D departments or branches) shall be USD 5 million. For R&D centers set up for more than 2 years: the minimum annual R&D expenditure shall be RMB 10 million.
- R&D specialists: No less than 90 people.
- Cost of existing equipment: The cumulative cost of equipment purchased since its set up shall be no less than RMB 10 million.

2. R&D centers established after 30th September 2009:

- R&D investments: The minimum total investment (for legal entities) or total R&D investment (for internal R&D departments or branches) shall be USD 8 million.
- R&D specialists: No less than 150 people.
- Cost of existing equipment: The cumulative cost of equipment purchased since its set up shall be no less than RMB 20 million.

II. Qualified domestic-invested and foreign-invested R&D organizations shall be entitled to VAT refund on purchase of certain domestically manufactured equipment.

The aforementioned R&D organizations include:

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1. Scientific research and technological development organizations specified in the Tentative Provisions on Exemption of Import Duty on Import of Articles for Technological Development (Decree [2007] No.44).

2. Scientific research organizations and schools specified in the Provisions on Exemption of Import Duty on Import of Articles for Scientific Research and Teaching (Decree [2007] No.45).

3. Foreign-invested R&D centers set out in section (I) above.

As the administrative measures on approval procedures and tax refund processes on the aforementioned tax incentives remain unclear, we advise relevant R&D organizations to watch closely for further notices to ensure maximum benefit from relevant tax incentives.

For further professional advice on VAT incentives, please contact LehmanBrown's Taxation Department on 0086 (0)10 8532 1720 or beijing@lehmanbrown.com.

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