



Applicable Scope Expansion for Additional 75% Deduction of Research and Development Expenses

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Reading Guide

Mr. Li Keqiang, Premier of the State Council held an executive meeting of the State Council on 23 July 2018. He emphasized that on the basis of ensuring tax burden reduction by more than RMB 1.1 trillion in the year, the applicable scope of additional 75% deduction of research and development (“R&D”) expenses would expand from small and medium high technology enterprises to all the enterprises. In order to implement the new policy when it is officially announced, it is important to understand the current policy of pre-tax additional deduction of R&D expenses.

Policy Overview

According to “Notice on Improving the Policy of Pre-tax Additional Deduction of R&D Expenses” (Cai Shui (2015) No. 119), the R&D expenses, arose from R&D activities of enterprise, which do not form intangible assets but are directly recognized as profit and loss in the current period, are eligible for additional tax deductions of 50% after the actual R&D expense is deductible before income tax. On the other hand, the R&D expenses which form intangible assets are deductible before income tax through amortization of 150% cost of intangible assets.

According to “Notice on Improving the Policy of Pre-tax Additional Deduction of R&D Expense for Small and Medium-sized Technological Enterprises” (Cai Shui (2017) No. 34), from the period of 1 January 2017 to 31 December 2019, the R&D expenses occurred in R&D activities of small and medium-sized enterprises, which doesn’t form the intangible asset but directly recognized as profit and loss in the current period, is eligible for additional tax deductions of 75% after the actual R&D expense is deductible before income tax. On the other hand, the R&D expenses which form intangible assets are deductible before income tax through amortization of 175% cost of intangible asset.

According to the speech given by Mr. Li Keqiang, the Premier of the State Council on 23 July 2018, the applicable scope of additional 75% deduction of R&D expenses would expand from small and medium high technology enterprises to all the enterprises.

Identification of Small and Medium-Sized High-Tech Enterprises

According to “Notice Issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation on the Issuance of the Evaluation Methods for Small and Medium-sized Technological enterprises”(Guo Ke Fa Zheng (2017) No. 115), small and medium-sized high-technology enterprises must meet all the following conditions:

1. Resident enterprises registered in China (excluding Hong Kong, Macao and Taiwan).
2. The total number of employees is no more than 500, the annual sales income no more than RMB 200 million and the total assets no more than RMB 200 million.
3. Products and services provided by enterprises are not prohibited, restricted or eliminated by the state.

4. Enterprises do not have significant safety, significant quality accidents, serious environmental violations or serious dishonesty in scientific researches in both this year and the year before. And the enterprises are not listed in the name list of abnormal business and serious illegal and trustworthy enterprises.

5. The total score is at least 60 points in the comprehensive evaluation of small and medium-sized high technology enterprises index. And the score of technicians index part is not 0.

If an enterprise meets 1~4 conditions above and one of the following conditions at the same time, it can be directly identified as small and medium-sized high technology enterprise:

1. The enterprise has the Certification of High-tech Enterprises in the valid period.
2. The enterprise has won national-level technology awards and ranked top three among the winning units in the past five years.
3. The enterprise has recognized provincial and ministerial level R & D institutions;
4. The enterprise has been leading in establishing international standards, national standards or industry standards in the past five years.

Therefore, only the enterprises meeting the above criteria are qualified for the R&D expense additional deduction policy.

Scope of R&D Expense

According to "Announcement of the State Administration of Taxation on Issues Relating to the Collection of R&D expense additional deduction" (State Administration of Taxation (2017) No. 40), the scope of R&D expense is divided into the following categories:

1. Personnel cost
2. Direct investment cost
3. Depreciation expense
4. Amortization expense of intangible assets
5. Other related costs

Industries Not Applicable to the Policy

1. Tobacco manufacturing.
2. Accommodation and food and beverage industry.
3. Wholesale and retail.
4. Real estate industry.
5. Leasing and business services.
6. The entertainment industry.
7. Other industries specified by the Ministry of Finance and the State Administration of taxation.

Accounting and Management

The enterprise should conduct accounting treatment of R&D expenditures according to the requirements of Accounting Standards and Business Enterprises. At the same time, the enterprise should set up subsidiary ledger for R&D expenses that is eligible for tax deduction according to the R&D project. If an enterprise undertakes a number of R&D activities within a year, it shall recognize R&D expenses according to different R&D projects.

The R&D expenses, the cost of production and operation should be measured separately, accurately and reasonably. Otherwise, these expenses and costs cannot be deducted from the taxable income.

Our Services

As mentioned above, the R&D expense pre-tax additional deduction policy has a significant positive impact on reducing tax burden of enterprises. The key to applying the policy is to have a solid understanding of the scope and accurate measurement of R&D expenses. As a professional finance and tax consulting company, LehmanBrown can provide assistance in the following areas:

1. Qualification application
2. Special audit of R&D expense
3. “Enterprise Income Tax Preferential Matters Form” filling in/submission and annual income tax filing

Any enquiries, please contact LehmanBrown by enquiries@lehmanbrown.com

LehmanBrown International Accountants is a licensed China-focused accounting, taxation and business advisory firm, operating dedicated offices in Beijing, Tianjin, Shanghai, Shenzhen, Guangzhou, Hong Kong and Macau, and with an extensive affiliate network throughout China and in over 100 countries worldwide.



About Us

Founded in 2001, LehmanBrown is a China-focused accounting, taxation and business advisory firm, operating in Beijing, Shanghai, Hong Kong, Macau, Shenzhen, Guangzhou and Tianjin. Our firm also manages an extensive affiliate network, providing service throughout China and reach across the globe.

Combining years of international expertise with practical Chinese experience and knowledge, LehmanBrown offers expert advice and support to both local and international clients. Within the mid - tier, we are regarded as a market leader and our clients enjoy access to a combination of senior and experienced counsellors from both China and abroad.

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综合多年的国际经验和对中国市场的深刻理解和实践体验,我们向广大国内外的客户提供高质量的专业服务和意见帮助。在雷博国际会计的服务过程中,我们作为市场中的佼佼者,您将得到来自中国本土以及其它国家的高级资深专家热忱的咨询帮助。

我们深刻认识到每一位客户都是独一无二的,并都有其独特的业务需求。雷博国际会计承诺将根据客户的不同业务需求,为客户提供个性化的财务解决方案。我们的专业人员将密切与您合作,以充分了解您独特的业务需求,从而提供满足您所需要的高时效、高质量的专业服务。

Professional Services

Audit & Assurance External Audit

[China Statutory Audit](#)

US GAAP Audit

IFRS Audit

Hong Kong Statutory Audit

Internal Audit

Fraud Investigation

Forensic Accounting

Special Purpose Audit

Foreign Currency Audit

Royalty Audit

Capital Verification Audit

Valuation Services

Corporate Valuation

Damage Assessment Valuation Intellectual

Property Valuation Asset Valuation

Special Purposes Valuation

Corporate Finance

Debt Restructuring

Acquisition, Disposal & Financing

Mergers & Acquisitions

Transaction Advisory

M&A Divesture

M&A Integration

Financial Due Diligence

Business Services

Company Registration & Maintenance

Cash Flow Management

Chop Custodian Services

Market Entry Advisory

Updating Company Certificates

Annual Inspection & Reporting

Company Secretarial Services

Company Ownership Transferring/Corporate

Restructuring Background/Credit Checking

Company Deregistration & Bankruptcy

HR Support Services

China Visa Services for Expatriates

Social Welfare Structures

Outsourcing Services

Accounting & Bookkeeping

Budgeting & Forecasting Financial Statement

Preparation Head Office Reporting

Financial Management

Interim Financial Management Finance

Manager Function

CFO Function

Treasury Management

Set-up of Bank Account

Payroll Services

Payroll Processing Setup

Expatriate Employees

Local Employees

Taxation Services

Individual Tax Planning (IIT)

Tax Immigration & Investment Review

US & Overseas Personal Income Tax Planning & Filing IIT Tax Payment Facilitation

Application for Individual Income Tax Refund
Expatriate Staff Individual Income Tax Staff

Filing Local Staff Individual Income Tax

Company Taxation (CIT)

Tax Consulting

Corporate Tax Planning

Business Restructuring

Value Chain Review

Onshore / Offshore Investment

Transfer Pricing

Tax Compliance

Tax Due Diligence

Tax Deregistration

Negotiation of Tax Penalties

Tax Refund Application

Tax Representatives for Tax Audit

VAT & Customs Duty Clearance

PRC Tax Receipt Verification

VAT Application

VAT & Sales Tax Filing

Corporate Income Tax Reporting

Specialist Accounting & Risk Management

Internal Controls

Systems

Risk Management

Sarbanes - Oxley (SOX 404)

GAAP, SEC & IFRS Compliance

US GAAP

US GAAP Financial Statement Preparation

US GAAP Conversion

Other GAAP

GAAP Conversion

Public Company Compliance

Financial Statement Preparation

IFRS

IFRS Accounting Repackaging

IFRS Financial Statement Preparation

IFRS Public Company Compliance

SEC

SEC Public Company Compliance

Legal Services

Legal Advisory

Labour Legal Advisory

Workforce Downsizing Advisory

Labour Tribunal Assistance & Advisory

Labour Law Review & Audits

Review & Preparation of Employment Contracts

Corporate Legal Advisory

Legal Due Diligence

Corporate Restructuring Advisory

Review & Preparation of Articles of Association (AoA)

Review & Preparation of JV Contracts

Review & Preparation of Repatriation Agreements

Other Legal Services

Dispute Mediation & Advisory

Trademark & Intellectual Property Advisory

Debt Collection Assistance

Litigation Support

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For further information about how we can add value and support your individual or business needs, please contact us.
如需为个人或企业获取更多的增值服务及业务协助信息, 请与我们联系。

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