Latest Policies for Further Encouraging the Development of the Software Industry and the Integrated Circuit Industry

On 28 January 2011, State Council issued the Certain Policies for Further Encouraging the Development of the Software Industry and the Integrated Circuit Industry (GuoFa [2011] No. 4). These policies are the milestone in the aspect such as continuing to improve the encouragement policies for the software and integrated circuit industry, definition of the guidance of the policies, optimizing development environment as well as improving the industry development qualities.

Main contents:

GuoFa[2011]No.4 formulated the policies in following 8 aspects to further optimize the development environment for software and integrated circuit industry, including:

1. Financial and taxation policies: continue to implement the VAT Preferential Policies for Software; the qualified services are exempted from business tax; and the qualified integrated circuit manufacturing enterprises is entitled to the preferential policies of the two-year exemption from EIT followed by three-year of a 50% tax deduction or five-year exemption from EIT followed by five-year of a 50% tax deduction.

2. Investment and Financing Policies: Support the qualified project within the budget of the central government; establish the venture investment fund or issue the stocks, bonds for the software and integrated circuit industry to attract the social fond investment; establish the risk compensation fund mechanism for the loan of the industry, etc;

3. Research of development policy: Play the guidance role for the National Key Science and Technology Projects; enhance the construction of the State Key Laboratory, State Engineering Laboratory, State Engineering Center and Enterprise Technology Center, etc.

4. Import and Export Policies: The software and integrated circuit enterprise can apply for customs supervisor for goods temporarily imported; the financing and insurance support to software export contract within the business scope, etc;
5. Talent policy: Speed up the encouraging mechanism of option perfection, technology investment as capital contribution, stock, profits distribution, etc.; academy enhance the discipline construction of software engineering and micro electronics; speed up the introduction of high level talents from overseas in the fields of software and integrated circuit.

6. Intellectual property right policy: Encourage the software industry enterprises to apply the registration of software copyright; strictly implement the policy for protection of intellectual property right of software and integrated circuit.

7. Marketing policy: Positively guide the enterprises to outsource the information technology R&D service to professional enterprises; enhance the Anti-Monopoly etc;

8. Implementation of policies: All the software and integrated circuit enterprises can enjoy this policy, no matter what kind of character of ownership the enterprises belongs to; further implementation of policies defined in GuoFa[2000]No.18.

Our Understanding and Suggestions:

Concerning the eight aspects of policies above described, these policies seem to be the development and extension of the Circular of the State Council on Printing and Distributing the Several Policies for Encouraging Development of the Software Industry and the Integrated Circuit Industry (Guo Fa [2000] No. 18), which extend the expiration of the policies which stated in GuoFa [2000] No. 18, and at the same time enhance the preferential policy in certain aspects, such as exemption of BT and five-year tax exemption followed by five-year 50% deduction from EIT. The relevant policies are stated as follows:

1. General VAT payers will be liable to charge VAT at the full rate of 17% on the sale of self-developed software products. However, they can obtain a refund immediately if and to the extent that their VAT payable exceeds three percent of their turnover according to GuoFa [2000] No. 18. We have noticed that the old policy has expired but the new policy extend the expiration and has no definition of the expiration of the enjoyment of the preferential policy, that could mean that the immediate refund policy of VAT could be long term oriented.

2. Exemption of BT: Software enterprises that are engaged in software development and testing, information system integration and consulting and operation maintenance will be eligible for BT exemption and the procedure could be simplified. This is a new policy.

3. Preferential policy “Two-year tax exemption followed by three-year 50% tax deduction”: Integrated circuits manufacturing enterprises with a line-width of less than 0.8um (Inclusive) as well as the recognized newly established integrated circuit design enterprises and qualified software enterprises will be eligible for tax exemption in the first two years and tax reduction by half according to the tax rate of 25% from the third year to the fifth year, starting from the first profit-making year. This policy could be refer to CaiShui[2002] No.70 and GuoFa[2000]No.18 accordingly, which is extended to implement.

4. Preferential policy “Five-year tax exemption followed by five-year 50% tax deduction”: Recognized Integrated circuits manufacturing enterprises with a line-width of less than 0.25um; or whose total investment of more than RMB 8 billion will be eligible for a EIT tax rate of 15%, for the recognized enterprises with the operating period of more than 15 years are eligible for tax exemption for the first five years followed by a EIT tax rate of 25% from the sixth year to the tenth year. We noted the policy of reduced EIT tax rate of 15% could be refer to GuoFa[2000]No.18 accordingly. The policy of “Five-year tax exemption followed by five-year 50% tax
“deduction” was announced for the first time. The preferential range has been intensified.

5. Input VAT of significant projects of the integrated circuit enterprises with capital impropriation: The problem could be solved according to prevailing laws and regulations issued by the Ministry of Finance jointly with the relevant department. We have observed that, this is a new policy. Due to the huge investment during the period, the huge amount of the input VAT could not be deducted from the output VAT, which caused capital burdens to the enterprises. We assume that relevant authorities will issue immediate input VAT refund policy in proper period, which is not definite until now.

6. The new policy to the relevant enterprise: The relevant enterprise engaged in packing of integrated circuit, testing and key special incentives and equipments manufacturing enterprise are eligible for EIT preferential policies, which is issued by Ministry of Finance, State Administration of Taxation jointly with the relevant department. The policy shows that the government pays attention to the whole supply chain of the integrated circuit (not only to the integrated circuit manufacturing enterprises), which means the new preferential policy will be put forward.

We suggest that the enterprises in relevant industry should pay more attention to the introduction and implementation of the follow-up policy. Undoubtedly, great changes may continue to take place during the economy growth step by step in China, the Chinese government will continuously enhance the support and guidance to the emerging industry under the condition of obeying the Free Trade Agreement. It is obviously a great advantage to the foreign invested enterprise with the technology advantages; the preferential policy does not make difference to the enterprises with different character of ownership.
### Tax News Headlines

Catalogue of some important tax regulations and laws for the release period:
11 February 2010 — 15 April 2011

<table>
<thead>
<tr>
<th>Release Date</th>
<th>Circular:</th>
<th>Title:</th>
<th>Effective Date:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-02-14</td>
<td>SAT order [2011] No. 25</td>
<td>Implementation Rules for the Measures on Administration of Invoice of the Peoples Republic of China</td>
<td>This Rule takes effect from the issued day.</td>
</tr>
<tr>
<td>2011-02-25</td>
<td>Order of President of the P. R. China No. 43</td>
<td>Vehicle and Vessel Tax Law of the People’s Republic of China</td>
<td>This Law takes effect from 1st January, 2011.</td>
</tr>
<tr>
<td>2011-03-16</td>
<td>Announcement of the State Administration of Taxation [2011] No. 19</td>
<td>Announcement of the State Administration of Taxation on Issues Concerning Implementation of Technical Service Fee Clause under Bilateral Tax Agreements between China and UK and other Countries</td>
<td>This Announcement takes effect from the issued day.</td>
</tr>
<tr>
<td>2011-03-18</td>
<td>HuiFa[2011] No.11</td>
<td>Circular of the State Administration of Foreign Exchange on the Relevant Issues of Further Strengthening the Administration of Foreign Exchange</td>
<td>This Circular takes effect from 1st April, 2011.</td>
</tr>
</tbody>
</table>
We took part in the 6th Sino-German Job Fair, which is held on 18 and 19 March, 2011 and jointly organized by DE international, the German Chamber of Commerce and the German Centre Shanghai. About 40 German companies attended this fair. As one of the sponsor there, we took this good opportunity to meet qualified German tax consultant who is native German and who can help us to expend our market as well as audit assistant who can communicate with German language fluently. At the same time, we aim to promote our employer branding. We are now in the interview process to find out the most suitable persons for our company.

About ECOVIS

Ecovis is a leading global consulting firm with its origins in Continental Europe. It has over 2,700 people operating in 30 countries. Its consulting focus and core competencies lie in the areas of, tax consultation, auditing, legal advice and accounting and management consulting services. The particular strength of Ecovis is the combination of personal advice at a local level with the general expertise of an international and interdisciplinary network of professionals. Every Ecovis office can rely on qualified specialists in the back offices as well as on the specific industrial or national know-how of all the Ecovis experts worldwide. This diversified expertise provides clients with effective support, especially in the fields of international transactions and investments – from preparation in the client’s home country to support in the target country. In its consulting work Ecovis concentrates mainly on mid-sized firms. Both nationally and internationally, its one stop-shop concept ensures all-round support in legal, fiscal, managerial and administrative issues. The name Ecovis, a combination of the terms economy and vision, expresses both its international character and its focus on the future and growth.