



China offers extra smart technology tax credits

In brief

- » China augments CIT benefits to cover smart upgrading of equipment (in the areas of energy- and water-saving, environmental protection and safety production).
- » Enterprises making eligible upgrades can offset CIT payable by as much as 10% of the renovation cost.
- » This new offer is valid to eligible equipment upgraded between 1 January 2024 and 31 December 2027.

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What it covers?

China's Ministry of Finance (MOF) and State Taxation Administration (STA) jointly issued in July 2024 an add-on CIT incentive to boost the smart transformation of specialized equipment related to energy- and water-saving, environmental protection and safety production (hereinafter as eligible equipment).

- The new offer is an extension of an existing CIT incentive policy implemented since 2008. It has stretched the coverage scope from purchases to transformation (in digital and intelligent manner).
- “*Digital and intelligent transformation*” of specialized equipment refers to the use of IT and digital technology to improve and optimize the specialized equipment, so as to improve their digital and intelligent level. Specifically, it includes six types of transformation: data acquisition, data transmission and storage, data analysis, intelligent control, digital security and protection, and other digital and intelligent transformation scenarios.

The two sets of CIT incentive policies are compared below.

	Existing	New
Policy ref. number	Cai-shui [2008] No.48	Notice No. 9, 2024
Issuance date	23 September 2008	12 July 2024
Validity	Since 1 January 2008 onwards	1 January 2024 – 31 December 2027
Tax credit scope	Purchase cost	Transformation cost
Tax credit amount	10% of purchase cost of eligible equipment.	10% of transformation cost (capped at 50% of purchase cost of eligible equipment).
Tax credit lifetime	Five years	Five years

How to claim the tax credit?

The CIT incentive is offered in the form of a tax credit. Companies endowing the transformation may claim their CIT credit for improvements made to eligible equipment. The tax credit equals 10% of the transformation cost of the equipment (but cannot exceed 50% of the equipment's purchase cost). The claim can be made yearly for the transformation made anytime between 1 January 2024 and 31 December 2027.

The CIT credit has a five-year lifetime. If an enterprise's CIT payable amount in a year is insufficient to be credited, e.g. due to a low-profit or loss-making situation, the unutilized tax credit can be carried forward and be used to offset CIT payables in any of the coming five years.

The two sets of tax credits can be applied in parallel. In other words, it is possible that a company can enjoy both benefits, if qualified, as illustrated in a simplified calculation below:

	<u>In 20xx</u>
CIT payable	100
- Credit (10% of new purchase cost of 100)	10
- Credit (10% of new transformation cost of 100)	10
= CIT payable (after crediting)	80

In addition, companies benefiting from the said CIT benefits may likely qualify also for some other CIT incentives, such as the extra deduction offered to R&D cost and a one-off full deduction for the purchase cost of the equipment. This would overall reduce the effective CIT burden to a much lower rate. All in all, these CIT incentives are aimed at boosting investments in clean, green and smart technology.

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How to qualify?

In principle, eligible equipment refers only to those specially listed, separately managed, and independently booked, as explained below:

- **Specially listed** : They have to be equipment listed in two official catalogs, i.e. the “*Catalog of Special Equipment for Safe Production for CIT Incentives (2018 Version)*” and the “*Catalog of Special Equipment for Energy Saving, Water Conservation, and Environmental Protection for CIT Incentives (2017 Version)*”; the equipment, after the transformation, should still fall into the said lists.
- **Separately managed** : The transformation should be supported by a formal transformation plan or a registered technical development or service contract from a recognized body. This information is required to be documented to meet future inspection.
- **Independently booked** : For each set of equipment, it should be put in use, and its transformation costs should be independently accounted for and booked as expenses for fixed assets (except finance-leased assets which are also allowed to enjoy the same benefits).

Yet, the policy has stipulated the following illegible circumstances, in which the companies cannot claim the tax credits and are required to pay back any CIT incentives ever enjoyed:

- The transformation is funded by government subsidies;
- The transformation costs cannot be accounted for separately for each set of equipment; or
- The equipment is transferred or rented out within the tax credit's five-year lifetime.

WTS China observation



Expectedly, the Chinese government is boosting large-scale equipment renewal, supporting the innovative development of the digital economy, and intensifying digital and intelligent transformation. Companies can benefit not only from the tax incentive but also from the enhancement in their technical level and competitiveness.

At present, this tax incentive policy covers only three fields: safety, environmental protection, and green/clean energy. Companies making investments in both eligible and illegible equipment will need to pay attention to the accuracy of their accounting records and tax filings.

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