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China adjusted tax incentives to boost capex

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In brief

» China has adjusted its income tax incentive related to capital expenditure (capex).

» It allows a one-off deduction of the full value of new equipment and instruments under the value of RMB 5 million / unit.

» It continues to allow depreciation at a higher or faster rate for equipment or instruments over RMB 5 million / unit.

» The new policy applies to new purchases taking place between 1 January 2018 and 31 December 2020.

Feedback

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In detail

China's Ministry of Finance (MOF) and the State Administration of Taxation (SAT) joinlty issued a notice on 7 May 2018, ref. Caishui [2018] No. 54, to adjust corporate income tax (CIT) policy for new purchases of equipment and instruments to encourage more investment in capex.

1. Details of adjusted incentive

» Any new purchases of equipment or instruments taking place between 1 January 2018 and 31 December 2020 can benefit from the following new policy:

- If their unit value is under RMB 5 million, a straight away full amount deduction is allowed for CIT calculation. The notice has raised the value threshold from RMB 1 million to 5 million. This benefit applies to companies in all sectors; and

- If their unit value is over RMB 5 million, the notice confirms the continuation of the existing incentive that was first launched in 2014. The taxpayers have the option either to file depreciation over a shorter period or at a faster rate if they are in manufacturing, transportation, IT or R&D sectors.

» The adjusted CIT policy is summarised below:

Equipment or instruments under RMB 5 million / unit	Equipment or instruments over RMB 5 million / unit		
	10 specified sectors	Other sectors	
		For R&D	Not for R&D
Purchase cost can be fully deductible in one go for CIT	Depreciation is allowed over a shorter period or at an accelerated rate	Depreciation is allowed over a shorter period or at an accelerated rate	Only straight-line depreciation is allowed

2. Equipment or instruments over RMB 5 million / unit

» The notice continues to offer preferential depreciation options for new purchases of equipment or instruments over RMB 5 million / unit to the following ten (10) sectors:

1. Biopharmaceutical manufacturing industry;
2. Special equipment manufacturing industry;
3. Railway, vessel, aviation and aerospace and other transportation equipment manufacturing industry;
4. Computer, communications and other electronic equipment manufacturing industry;
5. Instruments manufacturing industry;
6. Information transmission, and software and information technology services industry;
7. Light industry;
8. Textile industry;
9. Machinery industry; and
10. Automobile industry.

Companises in other sectors can still benefit from the policy if they use the equipment or instruments for R&D. This would of course require a clear seperation and documentation of their usage in accounting.

» Housing and buildings are excluded from the scope of "equipment and instruments".

WTS observation

- The incentive, though not a tax exemption, can help taxpayers achieve a tax deferral effect, via more or quicker deduction of depreciation costs.
- It should be noted that the “unit price” refers to the gross value of the newly purchased equipment or instruments, including their purchase price, taxes and fees paid for effecting the use of the assets.
- For equipment or instruments under RMB 5 million / unit, the notice stops short of restricting them to R&D usage only (as restricted in the previous policy). It should be interpreted as the limitation being removed.
- Yet for those over RMB 5 million / unit, the limitation remains unchanged, i.e. they are limited to usage in R&D or production areas if to enjoy the preferential depreciation policy.

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