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Ministry of Finance, State Administration of Taxation, Ministry
of Science and Technology

Notice on Improving the Pre-tax Super Deduction Policy for R&D Expenses

Cai Shui [2015] No. 119

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All provinces, autonomous regions, municipalities directly under the Central Government, and cities with separate planning status (bureaus), State Taxation Bureaus, local taxation bureaus, science and technology departments (bureaus), Xinjiang Production and Construction Corps Finance Bureaus, Science and Technology Bureaus:

In accordance with the relevant provisions of the Enterprise Income Tax Law of the People's Republic of China and its implementation regulations, in order to further implement the spirit of the Several Opinions of the CPC Central Committee and the State Council on Deepening the Reform of Institutional Mechanisms and Accelerating the Implementation of the

Innovation-driven Development Strategy, better encourage enterprises to carry out research and development activities (hereinafter referred to as R&D activities) and standardize the implementation of the preferential policy of super-deduction of enterprise R&D expenses (hereinafter referred to as R&D expenses), the following notice is hereby issued on issues related to the pre-tax super-deduction of enterprise R&D expenses:

1. Scope of R&D activities and R&D expenses

"R&D activities" as used in this notice refers to systematic activities with clear objectives that enterprises continue to carry out in order to acquire new knowledge of science and technology, creatively apply new knowledge of science and technology, or substantially improve technology, products (services) and processes.

(1) Allowed to super-deduct R&D expenses.

If the actual R&D expenses incurred by an enterprise in carrying out R&D activities are not included in the profit or loss of the current period as intangible assets, they shall be deducted from the taxable income of the current year at 50% of the actual amount incurred in the current year on the basis of the actual deduction according to the regulations; If an intangible asset is formed, it is amortized before tax at 150% of the cost of the intangible asset. The specific scope of R&D expenses includes:

1. Personnel labor costs.

Wages and salaries, basic endowment insurance premiums, basic medical insurance premiums, unemployment insurance premiums, work-related injury insurance premiums, maternity insurance premiums and housing provident fund of personnel directly engaged in R&D activities, as well as labor expenses of external R&D personnel.

2. Direct input costs.

(1) Costs of materials, fuel, and power consumed directly by R&D activities.

(2) The development and manufacturing costs of molds and process equipment used for intermediate tests and product trial production, the

purchase costs of samples, prototypes and general testing methods that do not constitute fixed assets, and the inspection fees of trial products.

(3) Expenses for the operation, maintenance, adjustment, inspection, and repair of instruments and equipment used for R&D activities, as well as rental fees for instruments and equipment leased for R&D activities through operating lease.

3. Depreciation expense.

Depreciation of instruments and equipment used for R&D activities.

4. Amortization of intangible assets.

Amortization expenses for software, patent rights, and non-patented technology (including licenses, know-how, design and calculation methods) used for R&D activities.

5. New product design fee, new process regulation formulation fee, new drug development clinical trial fee, exploration and development technology field test fee.

6. Other related fees.

Other expenses directly related to R&D activities, such as technical library fees, data translation fees, expert consultation fees, high-tech R&D insurance fees, R&D results retrieval, analysis, review, demonstration, appraisal, review, evaluation, verification fees, intellectual property application fees, registration fees, agency fees, travel expenses, conference fees, etc. The total amount of such expenses shall not exceed 10% of the total amount of R&D expenses that can be deducted by additional deduction.

7. Other fees stipulated by the Ministry of Finance and the State Administration of Taxation.

(2) The pre-tax super-deduction policy is not applicable to the following activities.

1. Regular upgrade of enterprise products (services).

2. Direct application of a scientific research result, such as the direct adoption of disclosed new processes, materials, devices, products, services or knowledge.
3. Technical support activities provided by the company to customers after commercialization.
4. Repetition or simple changes to existing products, services, technologies, materials or processes.
5. Market research research, efficiency survey or management research.
6. As an industrial (service) process link or routine quality control, testing and analysis, repair and maintenance.
7. Studies in the social sciences, arts, or humanities.

2. Handling of special matters

1. The expenses incurred by the enterprise entrusting external institutions or individuals to carry out R&D activities shall be included in the R&D expenses of the entrusting party according to 80% of the actual amount of expenses incurred and calculated as a super-deduction, and the entrusted party shall not make any further super-deductions. The actual amount of expenses incurred for outsourcing R&D shall be determined in accordance with the arm's length principle.

If there is an affiliation between the entrusting party and the entrusted party, the entrusted party shall provide the entrusting party with the details of the expenses of the R&D project.

Expenses incurred by an enterprise entrusting overseas institutions or individuals to carry out R&D activities shall not be deducted in addition.

2. For projects jointly developed by enterprises, the cooperative parties shall calculate the super-deduction for the actual R&D expenses borne by themselves.

3. According to the actual situation of production, operation and scientific and technological development, the actual R&D expenses incurred by the enterprise group for projects with high technical requirements, large

investment amounts, and the need for centralized R&D may reasonably determine the apportionment method of R&D expenses in accordance with the principle of consistency of rights and obligations, matching of expenses and revenue sharing, and apportionment among the beneficiary member enterprises, and the relevant member enterprises shall calculate the super-deduction separately.

4. The expenses incurred by enterprises in creative design activities to obtain innovative, creative and breakthrough products may be deducted before tax in accordance with the provisions of this notice.

Creative design activities refer to multimedia software, animation game software development, digital animation, game design and production; Housing construction engineering design (green building evaluation standard is three stars), landscape engineering special design; Industrial design, multimedia design, animation and derivative product design, model design, etc.

3. Accounting and management

1. Enterprises should account for R&D expenditure in accordance with the requirements of the national financial accounting system; At the same time, auxiliary accounts are set up for R&D expenses enjoying super-deduction according to R&D projects, and the actual amount of R&D expenses that can be super-deducted in the year is accurately aggregated. If an enterprise conducts multiple R&D activities in a tax year, it should separately collect the R&D expenses that can be deducted according to different R&D projects.

2. Enterprises should separately account for R&D expenses and production and operation expenses, accurately and reasonably aggregate various expenses, and shall not implement super-deductions if the division is not clear.

4. Industries that are not subject to the pre-tax super-deduction policy

1. Tobacco manufacturing.

2. Accommodation and catering.
3. Wholesale and retail trade.
4. Real estate.
5. Leasing and business services.
6. Entertainment.
7. Other industries specified by the Ministry of Finance and the State Administration of Taxation.

The above industries are subject to the National Economic Industry Classification and Code (GB/4754-2011) and updated accordingly.

5. Management matters and collection and management requirements

1. This notice applies to resident enterprises with sound accounting, audit collection and accurate collection of R&D expenses.
2. If the actual amount of R&D expenses incurred by an enterprise is inaccurately aggregated or the calculation of the summary amount is inaccurate, the tax authority has the right to make reasonable adjustments to the pre-tax deduction or super-deduction.
3. If the tax authority has objections to the R&D projects for which the enterprise enjoys the super-deduction incentive, it may request the administrative department for science and technology at or above the prefecture and city level (inclusive) to issue an appraisal opinion, and the science and technology department shall respond to the opinion in a timely manner. Enterprises undertaking scientific research projects at the provincial and ministerial level (inclusive) or above, as well as cross-year R&D projects that have been identified in previous years, no longer need to be identified.
4. If an enterprise meets the conditions for super-deduction of R&D expenses stipulated in this notice and does not enjoy the tax benefits in a timely manner after January 2016, 1, it can enjoy and perform the filing procedures retrospectively, and the retrospective period is up to 1 years.

5. The tax department shall strengthen the follow-up management of the preferential policy of super-deduction of R&D expenses, and carry out regular verification, and the annual verification area shall not be less than 20%.

6. Implementation time

This notice is effective as of January 2016, 1. The Notice of the State Administration of Taxation on Printing and Distributing the Administrative Measures for Pre-tax Deduction of R&D Expenses of Enterprises (for Trial Implementation) (Guo Shui Fa [1] No. 2008) and the Circular of the State Administration of Taxation of the Ministry of Finance on Policy Issues Related to Pre-tax Super Deduction of R&D Expenses (Cai Shui [116] No. 2013) are abolished at the same time.

Ministry of Finance, State Administration of Taxation, Ministry of Science
and Technology

November 2015, 11

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