

China issues one-year extension of preferential corporate tax treatment to integrated circuit and software industry

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China's State Taxation Administration (STA) released STA PN [2019] No. 68 (PN 68) on 17 May 2019 for a one-year extension of the preferential corporate income tax (CIT) provision to the integrated circuit (IC) and software industry.

Before PN 68, qualified IC design enterprises, and software enterprises were entitled to a two-year CIT exemption followed by a three-year 50% CIT reduction of the statutory 25% CIT rate (two plus three tax holiday) from the first profit generating year beginning prior to 31 December 2017.

Under PN 68, the two plus three tax holiday provision applies to the calendar year 2018 if it is the first profit generating year for the qualified IC design enterprises and software enterprises. However, since the tax return due date for the 2018¹ is 31 May 2019, if taxpayers have already submitted the 2018 tax returns, these taxpayers should file amended returns to claim refunds. Without amending returns, the taxpayers that are otherwise eligible for the preferential tax treatment will lose their ability to claim incentives for the 2019 through 2022 calendar years. If returns have not yet been filed, taxpayers should reflect the incentives in the returns, since filing amended returns is time consuming.

Similar preferential CIT treatment is also provided to the IC manufacturing enterprises.

Endnote

1. The calendar year is the taxable year for all Chinese companies.

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