

# Selected Tax Incentives in the Environmental Sector

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## CIT 3 year exemption + 3 year half reduction

Revenue earned by energy conservation and water saving conservation projects, environmental protection and clean development mechanism projects is eligible for a three-year exemption and three-year 50 percent reduction in corporate income taxes. Such projects could include technological renovation with respect to energy conservation and emission reduction, comprehensive exploitation and utilization of methane, as well as public sewage treatment, public garbage treatment and sea water desalination. Also eligible for this tax incentive is investment in and operation of infrastructure projects which have the major support of the State, including electric power and water conservancy projects.

The Corporate Income Tax Law and its implementing regulations provide other tax incentives to a number of areas in the green sector, including:

### ➤ *Purchase of environmental protection, conservation equipment*

Where an enterprise purchases and actually utilizes any of the special-purpose equipment related to environmental protection, energy and water conservation and work safety, 10 percent of the investment in the special-purpose equipment may be offset against its tax payable for the current year. Where the tax payable is insufficient for the credit, the excess may be carried forward for credit in the following five taxable years.

### ➤ *Comprehensive use of resources*

Where an enterprise uses any of the materials listed in the Catalogue of Income Tax Concessions for Enterprises Engaged in Comprehensive Resource Utilization as its major raw materials, the income it obtains shall be included in the total income at the reduced rate of 90 percent.

## High and New Tech Enterprises

Many enterprises engaging in activities in the green sector are considered high and new technology enterprises, which can be granted a reduction in CIT tax liability.

In addition, high and new technology enterprises in special economic zones (Shenzhen, Zhuhai, Shantou, Xiamen and Hainan) or in Shanghai Pudong New District and founded after January 1, 2008, are eligible for tax holidays (first two years tax-free, subsequent 3 years taxed at 12.5 percent).

Among the requirements for being considered a high and new technology enterprise are:

- Having a proportion of total research and development expenditure and its total sales revenue that accounts for at least 60 percent of the total revenue of the enterprise during the current year and a proportion from the immediately preceding three accounting years of (depending on sales revenue).

Preceding Year Sales Revenue	Minimum Proportion of Total R&D Expenditure
<RMB50 million	6 percent
RMB50 million - RMB 200 million	4 percent
>RMB200 million	3 percent

- Possessing independent intellectual property rights of the core technologies in its major products (services) by way of independent research and development, acceptance of transfer, donation or merger during the immediately preceding three years or through exclusive licensing for a minimum period of five years
- Conducting continuous research and development activities for purposes of making pioneering discoveries in science or technology (excluding humanities and social sciences), making creative use of new scientific

and technological knowledge, or substantially improving technologies or products (services)

## VAT Exemptions/Reductions

Products or services making a “comprehensive utilization of resources” through utilization of wastes as production inputs or energy-efficient processing have been eligible for VAT exclusion since 2008. This includes green building materials, combined heat and power pollutions, reclaimed wastewater, etc.

Under the green building sector, VAT exemptions are given for selling self-manufactured products no less than 30 percent of waste residues in raw materials; an immediate rebate selling of self-manufactured recycled asphalt concrete produced from waste asphalt concrete; and immediate rebate (50 percent) on selling of self-manufactured environmentally-friendly new walling materials.

Wind turbine component importers and wind power equipment manufacturers also receive VAT benefits. Among the government tax incentives specifically targeted at this sector is an immediate VAT rebate (50 percent) applied to selling self-manufactured electric power generated from wind power.

## Energy-Savings Services

Effective January 1, 2011, income earned by qualified energy-saving service companies engaging in energy management contracting projects is temporarily exempted from business tax. When an energy-saving service company transfers its taxable goods from qualified energy management contracting projects to energy-consuming enterprises, the value-added tax arising therefrom shall be temporarily exempted. Such companies are also eligible for the CIT 3 year exemption + 3 year half reduction.