

Pudong released the measures of financial subsidy during the 13th Five-year period aiming to accelerate headquarters economy, industry growth and talent innovation

In brief

Shanghai Pudong New Area, which shoulders the important mission of China's reform on opening-up, has also recently been given the responsibilities of developing the Shanghai Pilot Free Trade Zone (SH PFTZ) and the core functional area of the science and technology innovation centre. As such, industry incentive policies in Pudong have always been attracting close attention of a wide range of enterprises and investors. In February 2016, the government of Pudong New Area (the "Pudong Government") issued the *13th Five-year Plan on the National Economic and Social Development of Pudong New Area* (the "13th Five-year Plan for Pudong") to enhance the financial subsidy mechanism so as to promote structural modifications in industries, improve the efficiency of the area's resource allocation and foster innovative talents. In February 2017, the *Opinions on the Financial Support for Economic Development in Pudong New Area During the 13th Five-year Period* (Pufu [2017] No.18, hereinafter referred to as the "Opinions") was released to set forth the basic principles, key support areas and administrative rules for the provision of such financial support.

Recently, the Pudong Government promulgated a series of measures for financial support during the 13th Five-year period (hereinafter referred to as the "13th Five-year Financial Support Measures in Pudong" or the "Measures")¹, which cover headquarters economy, buildings economy, innovative talents and numerous sectors (including financial service, professional service, shipping, commerce and trade industry, strategic emerging industry and old age care service). These Measures basically extended and adjusted the financial support measures provided during the 12th Five-year period. In terms of the scope of benefit recipients, the Measures newly added specific financial support for buildings economy and innovative talents. In terms of the extent of support, most measures still followed the wording of "granting certain subsidies" without giving any specific amount. The Measures will take effect till 31 December 2020² and the relevant financial support are provided retrospectively from 1 January 2016.

In detail

This new round of financial support mainly focuses on headquarters economy as well as key industries such as financial service, shipping, trade business, etc., and major sectors like e-commerce, travel and exhibition, high-end research and development, etc. Meanwhile, specific support measures to encourage innovative talents are also released. The release of the Measures aim to strengthen the support role of fiscal and tax policies in revitalising the real economy and innovation of science and technology.

Promote the development of headquarters economy

Headquarters economy is one of the major forces driving the economic development in Shanghai. The release of the *Measures Providing Financial Support during the 13th Five-year Period for Speeding up the Development of Headquarters Economy Development* (Pufu [2017] No.132, hereinafter referred to as the "13th Five-year Financial Support Measures for Headquarters Economy") has undoubtedly attracted a lot of attention. The new measures continue the support to three types of headquarters (i.e., regional headquarters (RHQ) of multinational corporation (MNC), large enterprise headquarters, and territorial headquarters) provided in the 12th Five-year Financial Support Measures for Headquarters Economy³, and introduce the assessment criteria for operational

headquarters, high-growth headquarters, RHQ of international organisations (institutions), which further enrich the types of the headquarters in Pudong.

Among the six types of headquarters, except for RHQ of MNC which is assessed by the Shanghai Municipal Commission of Commerce in accordance with the *Regulations to Encourage the Establishment of RHQ by Multinational Corporations (MNC) in Shanghai* (Hufufa [2017] No.9)⁴ which was amended early this year, other headquarters shall be assessed by the Pudong New Area. The assessment criteria includes total assets, sales amount, economic contribution, number of enterprises which the headquarters manages or invests, business functions, etc. In particular, the assessment on high-growth headquarters also takes into account the enterprise's core technology intellectual property, research and development expenditures, business model, financing activities, global and domestic reputation, as well as whether its management and operation team are located in Pudong.

Qualified headquarters will be granted "certain incentives" under the following four categories:

Newly established (i.e., established on and after 1 January 2016) RHQ of MNC, large enterprise headquarters, operating headquarters, territorial headquarters and high-growth headquarters, will be provided with certain annual incentives for a period of 3-5 years. While newly-established RHQ of international organisations (institutions) will receive a one-off reward of up to RMB 4 million based on their company size;

- **Senior executives, chief representatives, middle managements and professional personnel** of the relevant newly established headquarters can receive incentive for a certain period according to their contribution.
- The headquarters enterprise and relevant personnel of **existing headquarters** (i.e., established before 1 January 2016) whose status has been reconfirmed can also enjoy the similar incentives.
- **Major shareholders** of large enterprise headquarters, operating headquarters and territorial headquarters which have effected a one-off equity transfer are entitled to certain incentive according to the equity transfer's contribution to Pudong.

With the release of the 13th Five-year Financial Support Measures for Headquarters Economy, it is not difficult to anticipate that the Pudong Government will further increase its effort to attract and nurture foreign investments and create a favourable business environment so as to attract more China headquarters, Asia Pacific headquarters and global headquarters to locate in Pudong.

Support the development of key sectors

The financial support in the Measures cover a batch of key sectors with an aim to support the development of strategic emerging industries and to promote industry transformation and upgrading. As such, the following industries will potentially benefit:

Financial sectors: It includes financial holding companies, financial institutions and emerging financial institutions (including financial leasing enterprises, private equity enterprises, and financial professional service institutions, etc.). Supportive measures include locating incentive, contribution-based incentive (i.e., incentive which provides to an enterprise according to its contribution to Pudong) and talent incentive.

Professional services sector: It includes legal service, accounting and audit service, intellectual property service, human resource service, technology brokering service, as well as other emerging professional services. Supportive measures include provision of contribution-based incentive to qualified newly-established enterprises and existing enterprises, incentive to the senior executives and middle management personnel of the relevant enterprises.

Commerce and trade sector: It includes high-grade commerce and trade companies (operating centre, key commodities trading companies and key commercial chain companies), high-grade tourist business and exhibition companies (key tourist business and key exhibition companies), companies in the key commodities market, companies with overseas investment, companies in the business of developing business districts and industrial garden and providing supportive facilities, emerging service companies (e.g., information service sector, research and development service), cultural innovation sector companies (e.g., companies engaged in animation games, audio-visual program through the internet, and shows and exhibition), e-commerce enterprise. Contribution-based incentives will be provided to the above sectors. It is noteworthy that where a company's economic contribution from overseas investment reaches RMB 5 million, it can be entitled to certain incentive annually within the 5 year period according to its contribution to Pudong, which indicates the Pudong Government's strong will to encourage enterprise to conduct international investment.

Strategic emerging sector: it includes strategic emerging sectors such as new-generation IT, high-end equipment, new materials, biotech, new-energy automobiles, new energy, energy saving and environmental conservation, digital innovation, as well as some traditional leading sectors in Pudong such as automobile and shipping, etc. The Measures offer respective incentives to key pioneering companies, key leading companies, key developing companies and newly-located high and new technology companies in the above sectors. Meanwhile, the Measures also provide certain investment incentive or related incentives to company undertaking key technology transformation projects, such as, advanced manufacturing transformation, intelligent manufacturing transformation and green manufacturing transformation, and projects which utilises industrialisation special fund.

Shipping: It includes enterprises engaging in research and development, design and repair of marine and air transportation vehicles, operation and management of port and pier and transportation vehicles, international goods transport, logistics and supply chain management, as well as companies engaging in the supporting services, such as, finance, insurance, leasing, brokerage, agency, as well as online-to-offline platform, etc. Qualified key/ high-end/ high-growth shipping companies and functional institutions in the shipping sector are entitled to certain contribution-based incentive. High-level talents of the relevant companies are entitled to the incentive as well.

Buildings economy: Landlords of commercial building (industrial park) or their entrusted management companies which provide relevant management services are entitled to incentives of up to RMB 5 million according to the annual economic growth contributed by the tenants.

Old age care service: the relevant financial support including construction incentive, operation incentive, caring incentive, and special item incentive, and is applicable to old age care organisations, community home-based care services, special elderly and special care professionals, etc.

Encourage innovative talents

It is also an important objective to accelerate the development of talent highland during the 13th Five-year period of Pudong. In addition to the financial support measures for management and technological personnel in specialised sectors, the Measures also set forth financial support policies for innovative talents, which include: 1) Talents from key pioneering companies, key leading companies and key development companies under the *Measures Providing Financial Support during the 13th Five-Year period for Speeding up the Development of Strategic Emerging Industry*; 2) Talents from recognized research and development institutions at the state-level, Shanghai municipal level and Pudong New Area district level; 3) Talents undertaking major and significant projects of the state and Shanghai municipality. These talents are entitled to certain talents incentive according to the individual contributions in relation to their salaries and wages.

In addition, the Measures also provide certain incentives to the major shareholders of the above type 1 and 2 enterprises according to the comprehensive contribution resulted from their equity transfer. This is another creative financial support of Pudong.

The takeaway

In 2014, in light of the clean-up of the existing preferential tax policies launched by the State Council, the provision of local-level fiscal and taxation policies has slowed down, which has, to a certain extent, also impacted the development of some emerging industries. Then, the subsequently released circular titled Guofa [2015] No.25 clarified that non-tax related preferential policies can still be implemented upon the approval of the local-level government. The release of the Measures will undoubtedly be good news for enterprises investing in Pudong and it also demonstrates the Pudong government's commitment to support leading industries in the area.

How to determine the specific extent of the financial support

Similar to the previous financial support circulars, the Measures still has not specified the extent of incentives. The incentives are mainly based on the "extent of contribution" or "additional contribution" made by the enterprise to Pudong and for a certain period of time. Some of which also have a monetary cap. In addition, some sectors may satisfy the criteria of more than one financial support measures. In which case, enterprises can choose the more favorable incentive, rather than being entitled to multiple incentives, for incentives the same policy category. For instance, shipping RHQ of MNC can select to either apply for the financial support measures for headquarters economy of Pudong or the one for the shipping sectors. In general, enterprises planning to enjoy the relevant financial subsidies still need to initiate a dialogue with the Pudong Government as well as the in-charge authority, and to analyse the most favorable policy in order to receive the maximum financial support.

Assessment system of enterprise's contribution to Pudong

According to the Opinions, the provision of financial support shall be commensurate with the enterprise's contribution to the economic and social development of Pudong. The majority of the measures set forth respective incentives are based on the corporate or individual contribution to Pudong. In terms of corporate contribution, various factors such as actual development requirement, economic contribution, technology innovation, employment promotion, energy saving and emission reduction, social integrity, safety in production and talent contribution, etc. would be considered comprehensively. Such contribution not only decides an enterprise's eligibility to receive financial support, but also the quantum of the incentive. It is recommended that relevant applicants should initiate a dialogue with the Pudong Government as early as possible to understand the specific indicators of the "corporate contribution assessment system" and assess whether they are eligible for the relevant incentives.

In addition, enterprises should also pay attention to their own innovation transformation, as well as function improvement. According to the 13th Five-year Plan for Pudong and Opinions, high-energy-consuming, high-pollution and low-efficient enterprises are already included in the industry structure adjustment scheme of Pudong. Such enterprises and those included in the credit "blacklist" may not be entitled to the financial subsidies.

Whether the existing enterprises are eligible for the financial subsidy

The Measures not only apply to newly established enterprises in Pudong after 1 January 2016, it also rolls out continuous incentive policies for existing enterprises in the area (including enterprises which have or have not enjoyed the incentives). For instance, upon confirmation of the status, existing qualified headquarters are entitled to certain incentives according to their contribution; existing enterprises which obtained the approval for the first time can obtain incentives according to their additional contribution by reference to the relevant incentives for newly established headquarters.

The relevant financial subsidies mentioned in the Measures are provided retrospectively from 1 January 2016 with a valid period of five years. It is suggested that relevant investors and enterprises can start to assess the incentive criteria and the impact of the incentive, to proactively communicate with the Pudong Government, to understand the application measures in order to receive the maximum benefit.

Endnote

1. The measures for financial support of Pudong New Area during the 13th Five-year period include:
 - <Opinions Providing Financial Support during the 13th Five-year Period for Promoting the Old Age Care Service Industry> (Pufu [2017] No.66),
 - <Measures Providing Financial Support during the 13th Five-year Period for Speeding up the Development of Professional Service Industry> (Pufu [2017] No.126),
 - <Measures Providing Financial Support during the 13th Five-year Period for Speeding up the Development of Building Economy (trial)> (Pufu [2017] No.127),
 - <Measures Providing Financial Support during the 13th Five-year Period for Speeding up the Development of Commerce and Trade Industry> (Pufu [2017] No.128),
 - <Measures Providing Financial Support during the 13th Five-year Period for Speeding up the Development of Shipping Industry> (Pufu [2017] No.129),
 - <Measures Providing Financial Support during the 13th Five-year Period for Speeding up the Development of Financial Service Industry> (Pufu [2017] No.131),
 - <Measures Providing Financial Support during the 13th Five-year Period for Speeding up the Development of Headquarters Economy Development> (Pufu [2017] No.132),
 - <Measures Providing Financial Support during the 13th Five-year Period for Speeding up the Development of Talents with High Technology Knowledge and Advance Skill> (Pufu [2017] No.133),
 - <Measures Providing Financial Support during the 13th Five-year Period for Speeding up the Development of Strategic Emerging Industry> (Pufu [2017] No.134),
 - For more details, please refer to the official link below:
http://gov.pudong.gov.cn/ZCFGL1/List/list_o.htm
2. The <Measures Providing Financial Support during the 13th Five-year Period for Speeding up the Development of Building Economy (trial)> (Pufu [2017] No.127) shall be valid till 11 August 2019.
3. For details of the <Measures Providing Financial Support for Speeding up the Development of Headquarters Economy Development> (Pufu [2011] No.151), please refer to the official link below:
http://gov.pudong.gov.cn/ZCFGL1/Info/Detail_374021.htm
4. For analysis and observation on the <Regulations to Encourage the Establishment of Regional Headquarters (“RHQs”) by Multinational Corporations (MNC) in Shanghai> (Hufufa [2017] No.9).

Let's talk

For a deeper discussion of how this issue might affect your business, please contact Kelvin Lee at +86 (10) 6533 3068 or via kelvin.lee@cn.pwc.com