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PRESS RELEASE

Lehman, Lee & Xu Comments on Temporary Tax-free Status for Outsourcing Companies

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BEIJING - The Ministry of Finance has announced that it plans to temporarily exempt service-outsourcing companies from payment of sales tax in twenty-one cities including Beijing, Shanghai, Dalian and Shenzhen. The temporary exemption is designed to strengthen the industry which has suffered considerably during the economic crisis as well as to boost its expansion. The new policy will run from July 2010 through December 2013, and covers firms specializing in information technology outsourcing, business process outsourcing and knowledge process outsourcing.

For taxes already levied since July 1, 2010 firms can apply for a deduction in tax collections in following months. The tax waiver will primarily assist smaller firms since most large companies have already enjoyed business tax exemptions since the beginning of the year.

To qualify for the preferential policy, companies must be classified as "technologically advanced" which requires technology-advanced service firms' revenue to account for more than 50 percent of total sales. The policy enforces a relatively high threshold for small or newly set-up companies, but for more established firms, it should be relatively easy to apply for the exemption.

In the first six months of 2010, China's software outsourcing revenue reached \$1.23 billion, an increase of 38.8 percent over 2009 according to the Ministry of Industry and Information Technology. However, the rate was lower than the 64.5 percent growth in the first six months of 2009, largely because of the global economic downturn. In a recent report published by Deloitte LLP, China is predicted to be one of the most powerful competitors in the global service outsourcing industry within the next 10 years, with an average annual growth rate of 23 percent, reaching \$43.4 billion in 2012.

Scott Garner of Lehman, Lee & Xu commented that "we represent a number of clients in Beijing and Shanghai that fall into the category of technologically advanced outsourcing firms and the new policy is certainly extremely beneficial. With many companies struggling to maintain profitability, the savings in sales tax can have an immediate benefit on the bottom line, allowing the client to reinvest in capital

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expenditures, hire new employees, and increase marketing efforts. And with the policy extending through December 2013, companies can now use the tax savings to implement business strategies that will help the company in the long term.”

Lehman, Lee & Xu is a prominent Chinese corporate law firm and trademark and patent agency with offices in Beijing, Shanghai, Shenzhen, Hong Kong, Macau, and Mongolia. The firm is recognized as a leading expert in corporate law and an active member of the Shanghai community.

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