

Green Tax Research Report (2)

National High-tech Enterprise Environmental Taxation Observation Environmental risks should be taken into consideration in high-tech enterprise assessment and tax incentives



PECC

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Observation on environmental taxation of national high and new technology enterprises
- Environmental risks should affect the assessment and tax preference of high and new technology enterprises
Summary

After being recognized as a high and new technology enterprise (hereinafter referred to as “HNTE”), the enterprise enjoys the preferential income tax reduction and exemption of the tax department and the honor of “HNTE”. In case of environmental violations and safety accidents, the impact should be related to the whole process of the enterprise participating in the evaluation, having been evaluated and enjoying, and being reviewed and evaluated, which directly affects whether the high-tech enterprise is worthy of its name and whether it can continue to enjoy the preferential policies of the tax department.

At present, there are few cases of failure of high-tech identification caused by environmental violations and safety accidents in China. The occurrence of major environmental pollution and safety accidents will not only affect whether the enterprise meets the identification of high enterprise, but also affect the tax preference and financial subsidies in some regions brought by the identification, which is bound to affect the operating profit and goodwill image of the enterprise. Moreover, some enterprises belong to the subsidiaries of listed companies, which will also cause certain risk impact on the stock market.

Currently, PECC observed that some high-tech enterprises still have the phenomenon of environmental pollution and safety accidents on the premise of enjoying the tax preferences and some of the financial incentives brought by the identification of HNTE, which will inevitably affect the healthy and orderly development of high-tech enterprise identification mechanism and taxation mechanism, as well as the compliance, legality, fairness and justice of the entire market. Therefore, PECC, under the guidance of relevant national policies and regulations, helps science and technology department and taxation department to identify the environmental performance of high-tech enterprises being and have been identified, assists science and technology department to standardize the relevant mechanism for the identification of high-tech enterprises, promotes enterprises to independently increase the disclosure of information and do a good job in energy conservation and emission reduction, safety production, and enhances the high-quality and healthy development of enterprises.

In this report, PECC communicated and cooperated with 22 provincial and municipal areas of the country’s science and technology departments and 96 local tax departments to verify the situation of 116 high-tech enterprises. By the time the report was released, the science and technology departments in 16 provinces had made good communication with PECC and the latter received replies about the high-tech enterprises. Many local tax departments said in their replies to PECC that the letter had been sent to relevant departments of ecology and environment for further verification.

Domestic background of green tax

This report mainly focuses on the background of the determination of high-tech enterprises, the regulations and policies, the criteria for defining major issues and the current situation of preferential tax policies enjoyed by national high-tech enterprises. The authors mentioned the following information:

- According to the official data released by the National Bureau of Statistics and the accounting results of the public list on the website of Innovation Company, the author finds that since the implementation of the supporting laws and regulations in 2008, the number of high-tech enterprises has generally shown an upward trend, especially a steady increase in the past five years. Based on the data from the National Bureau of Statistics, high-tech enterprises account for an increasing proportion of industrial enterprises above designated size, increasing from 6.05% in 2008 to 8.59% in 2017, which further highlights the increasing weight of high-tech enterprises in industry, and also reflects the improvement of China's ability to transform high-tech research into industrial production. It also shows that industrial enterprises are gradually moving from low-end manufacturing to high-end creation in China. It has been 12 years since the determination of high-tech enterprises. In the 12-year development of high-tech enterprise determination, the environment, safety and legal compliance of the recognized high-tech enterprises should also be paid attention to and concerned. Through this investigation, PECC hopes to clarify the environmental and safety risks before and after the determination of high-tech enterprise, whether it can enable the enterprise to continue to legally enjoy the national preferential tax policies, at the same time promote high-tech enterprises to actively assume the main responsibility for pollution control, improve the environmental protection recognition mechanism of regional high enterprises, and help multiple departments reduce the various risks after the determination of high-tech enterprises.
- The identification of high enterprises is mainly based on the relevant conditions and operational procedures in the Guidelines for the Determination and Management of High and New Technology Enterprises and the Measures for the Determination and Management of High and New Technology Enterprises. After the declaration in accordance with the relevant requirements, the provincial and municipal science and technology departments will announce the evaluation results to determine whether the enterprise is a high and new technology enterprise. According to The Law of the People's Republic of China on Enterprise Income Tax, the enterprise income tax is levied at a reduced rate of 15% for high-tech enterprises. In terms of encouraging high-quality development of enterprises, several regions will give corresponding financial incentives to enterprises that have successfully applied for high-tech enterprises and enterprises that are already high-tech enterprises, in addition to the tax preferences stipulated by the state. The specific intensity and mode of incentives will be determined by each region according to the financial situation. At the same time, there is a clear provision in the conditions for the determination of high-tech enterprises that "no major safety, major quality accidents or serious environmental violations within one year before the enterprise applies for determination", which means that the enterprise must meet the legal compliance of the environment and safety while in the declaration, and no major environmental pollution problems or accidents can occur.
- For the definition of "major environmental pollution", there is a clear definition of Hebei Province, followed by Shandong and Ningbo has also issued the corresponding criteria for the delimitation of major environmental problems. The interim standard of Hebei Province defines two situations of high-tech enterprises in environmental violations, but the science and technology departments of other provinces and cities have not issued a clear definition of major problems. The science and technology departments of other provinces have not yet defined any

major issues.

Push by environmental groups

The current project is supported by the Institute of Public and Environmental Affairs, taking high-tech subsidiaries of listed companies as an example. With the help of IPE environmental database, PECC screened out listed companies and their subsidiaries with regulatory records in 2018 and 2019, and classified them according to percentage of shareholding, amount of fines, environmental penalties and the degree of impact of safety accidents, and screened out 116 high-tech enterprises. The purpose of implementing this measure, which is limited to a single corporate income tax deduction for high-tech enterprises, is to: first, accurately evaluate the impact of national environmental safety breach of high-tech enterprises on tax preferences after high-tech enterprises are recognized; second, promote the formulation of discretionary standards on “major issues” in high-tech enterprises in many provinces and cities; third, strengthen the participation of environmental protection organizations in supervising the high-quality development of high-tech enterprises.

According to relevant documents and actual screening, PECC selected the overall overview of green tax revenue from high-tech subsidiaries of 88 listed companies in China, science and technology departments, and feedback from tax departments to conduct systematic research. Through the analysis of green taxes of high-tech subsidiaries of listed companies, the authors found that: the number of regulatory records is positively proportional to the number of environmental violations of high-tech enterprises; the frequency of regulation is inversely proportional to the compliance productivity of high-tech enterprises; and whether the high-tech enterprises belonging to listed companies produce in accordance with the law deserves attention and review. Through the feedback and analysis of science and technology departments, the author pointed out the following problems: the provincial standards have not been refined and unified for more than ten years; passively received the information of the environmental protection department during the evaluation and certification of the science and Technology Department; big data should help the information screening of science and technology departments and improve work efficiency; the channels for the government to raise objections to the public information need to be unblocked and improved; many provincial and municipal science and technology departments responded to the letter from PECC. Through the analysis of the feedback from the taxation department, the authors found that: the enterprise tax payment belongs to confidential information and is not subject to inquiry and review; the enterprise income tax preference is due to the determination of high-tech enterprises, and the tax department passively accepts feedback from the science and technology department; the tax department takes the initiative to send a letter to the science and technology department for review.

Development and initiatives

It has been more than 12 years since the formal implementation of the Administrative Measures for Determination of High and New Tech Enterprises in 2008. During this period, domestic high-tech enterprises have witnessed rapid development, large scale and multiple industries. As for the 116 high-tech enterprises observed this time, there are still environmental and safety violations. Therefore, the authors puts forward the following suggestions:

- High-tech enterprises should take the initiative to increase the environmental and safety

information disclosure. They represent the pioneer of high-tech development in China and the latest research results of the whole industry in transforming into productivity, while high-tech enterprises also bring huge industrial production output. Therefore, high-tech enterprises in an important position should actively increase their own environmental and safety information disclosure, accept public participation and supervision, in order to meet the social effectiveness and assume the social responsibility of high-tech enterprises. They can strengthen the application of environmental big data, understand their own environmental publicity and public feedback, timely respond to public demands for environmental and safety issues, and improve their ESG (environmental, social and governance performance) and information disclosure ability.

- Relevant departments of provinces and cities should accelerate the formulation of the definition of “major issues”. PECC believes that in the process of multi-year exploration and implementation of the determination of high-tech enterprise, all provinces and cities should make up for policy shortcomings as soon as possible, and speed up the formulation of defining or measuring standards of “major issues”. This is not only convenient for the existing high-tech enterprises to compare their own environment and safety management, but also conducive to standardizing the system and mechanism for the determination of high-tech enterprises, promoting enterprises to operate and apply in accordance with laws and regulations, and also promoting market fairness and justice.
- Multi-departmental linkage mechanism needs to be strengthened and the linkage platform needs to be built as soon as possible. The multi-department should change from a single to a pluralistic close cooperation relationship, open up the channel between business departments, take the initiative to discover and review, and realize information sharing on a continuously improved linkage mechanism and platform. Only by constantly improving relevant laws and regulations and supporting systems and mechanisms, working in accordance with laws and regulations, and forming a working mode of multilateral cooperation, supervision and mutual reminder, can the supervision of high-tech enterprises and ordinary enterprises be more convenient, and the determination and later management of high-tech enterprises be more efficient and standardized.
- From passive to active, avoid the regulatory deficiencies. The authors suggest that in addition to regularly identifying relevant high-tech enterprises every year, the science and technology department should change the management and review of high-tech enterprises from passively receiving the feedback of relevant departments to actively obtaining relevant information, assume the responsibilities for the identification, audit, review and management to avoid the absence of the subject of supervision of identified high-tech enterprises.
- Big data helps science and technology departments improve administrative efficiency. Technology and tax departments can strengthen the application of environmental big data and improve the screening ability of high-tech enterprises’ environmental protection and safety compliance. They can fully rely on the assistance of third parties and cooperate widely with environmental protection organizations. The full application of environmental big data will save the resources of various administrative departments and facilitate the administrative efficiency

of government functional departments. Listed companies should enhance the comprehensive management level and governance capacities. They still need to strengthen their social responsibility in environmental safety, and should be more proactive in improving their comprehensive management and governance capabilities, sorting out information on environmental safety of high-tech enterprises, and increasing information disclosure to show their own social responsibility and high-quality development.

To sum up, through the investigation on the current situation of domestic high-tech enterprises enjoying preferential tax policies and the feedback from the full communication and cooperation with the science and technology department and the tax department, PECC suggests that we should establish a multi-party cooperation mechanism for the evaluation of high-tech enterprises, and strengthen mutual communication among the science and technology, tax, ecological environment, emergency and other departments. For some high-tech enterprises with serious pollution, we should establish and improve the review mechanism as soon as possible. For the judgment of major environmental and safety issues, we should speed up the formation and promulgation of unified or supporting laws and policies, and help China's high-tech enterprises develop healthily in the direction of environment-friendly and resource-friendly with the support of scientific and technological innovation.

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