To the people's governments of all provinces, autonomous regions, and municipalities, and all ministries and commissions of the State Council and their respective agencies:

We hereby issue the following document, *Certain Policies to Promote the High-Quality Development of the Integrated Circuit Industry and the Software Industry in the New Period*. Please implement these policies conscientiously.

State Council
Monday, July 27, 2020

(This document is released publicly)

Certain Policies to Promote the High-Quality Development of the Integrated Circuit Industry and the Software Industry in the New Period

The integrated circuit industry and the software industry form the backbone of the IT industry. They are the key forces ushering in a new round of scientific and technological revolution and industrial transformation. China's integrated circuit and software industries have developed quickly since the issuance of the *Notice of the State Council on Issuing Certain*

Policies to Encourage the Development of the Software Industry and the Integrated Circuit Industry ([2000] No. 18) and the *Notice of the State Council on Issuing Certain Policies to Further Encourage the Development of the Software Industry and the Integrated Circuit Industry* ([2011] No. 4). They have made a significant contribution to the development of informatization (信息化) in China and promoted sustained and healthy national economic and social development. These policies have been drawn up in order to further optimize an environment in which to develop the integrated circuit and software industries, to deepen international industrial collaboration, and to increase the ability of these industries to innovate and the quality of their development.

I. Fiscal and Tax Policies

1. China shall support integrated circuits with a line width less than or equal to 28 nm by exempting integrated circuit makers that have been in business or have had projects in progress for at least 15 years from corporate income tax for 10 years. China shall support integrated circuits with a line width less than or equal to 65 nm by exempting integrated circuit makers that have been in business or have had projects in progress for at least 15 years from corporate income tax for 5 years, and will cut their usual corporate tax rate of 25% by half for an additional 5 years. China shall support integrated circuits with a line width less than or equal to 130 nm by exempting integrated circuit makers that have been in business or have had projects in progress for at least 10 years from corporate income tax for 2 years, and will cut their the usual corporate tax rate of 25% by half for an additional 3 years. China shall support makers of integrated circuits with a line width less than or equal to 130 nm by carrying forward any losses the makers incurred during the fiscal year to offset subsequent years for up to a maximum to 10 years.

The period during which integrated circuit makers shall enjoy these preferential tax policies is calculated from the first profit-making year. The period during which integrated circuit projects shall enjoy these preferential tax policies is calculated from the first fiscal year during which production and operating income is earned. The list of integrated circuit makers and projects shall be drawn up by the National Development and Reform Commission and the Ministry of Industry and Information Technology in conjunction with other relevant departments.

2. The state shall provide support to integrated circuit design, equipment, material, packaging, or testing companies, as well as software companies, starting from the first profit-making year, by exempting them from corporate income tax for the first two years and by cutting the usual corporate tax rate of 25% by half for an additional two years. The conditions for these integrated circuit design, equipment, material, packaging, or testing companies shall be determined by the Ministry of Industry and Information Technology in conjunction with other relevant departments.

3. The state shall provide support to key integrated circuit design companies and software companies starting from the first profit-making year by exempting them from corporate income tax for the first five years and levying a reduced corporate income tax rate of 10% for subsequent years. The list of key integrated circuit design companies and software companies

shall be drawn up by the National Development and Reform Commission and the Ministry of Industry and Information Technology in conjunction with other relevant departments.

4. The conditions and scope of the preferential tax policies implemented by the government for integrated circuit makers and projects and for software companies may be adjusted on a dynamic basis according to industrial progress or technological advancements. The corporate income taxes of integrated circuit design companies and software companies for years prior to the implementation of these policies shall be paid in accordance with the "two-year exemption and three-year half-payment" ("两免三减半") preferential corporate income tax policy defined in document (2011) No. 4.

5. The implementation of preferential value-added tax policies for integrated circuit companies and software companies shall continue.

6. For a certain period of time, makers of logic gates or memory with integrated circuits with a line width less than or equal to 65 nm, as well as makers of specialty process integrated circuits with a line width less than or equal to 0.25 μm (including makers of masks [掩模版], eight-inch wafers, and the aforementioned chip makers) shall be exempt from import duties on raw materials and consumables used in production, special construction materials for clean rooms, support systems, and spare parts for integrated circuit production equipment imported for their own use. Makers of compound integrated circuits with a line width less than or equal to 0.5 μm and advanced packaging and testing companies shall be exempt from import duties on raw materials and consumables used in production imported for their own use. Specific policies shall be drawn up by the Ministry of Finance in conjunction with the General Administration of Customs and other relevant departments. The list of companies and duty-free goods shall be drawn up respectively by the National Development and Reform Commission and the Ministry of Industry and Information Technology, in conjunction with other relevant departments.

7. For a certain period of time, key integrated circuit design companies and software companies that are receiving state support (鼓励), as well as the integrated circuit makers and advanced packaging and testing companies listed in paragraph 6, shall be exempt from import duties on equipment, technology (including software), accessories, and spare parts imported for their own use, except for the goods listed on the relevant list(s) of imported goods that are not exempted from duties. Specific policies shall be drawn up by the Ministry of Finance in conjunction with the General Administration of Customs and other relevant departments.

8. For a certain period of time, import value-added tax payments for new equipment imported for major integrated circuit projects may be made in installments. Specific policies shall be drawn up by the Ministry of Finance in conjunction with the General Administration of Customs and other relevant departments.

II. Investment Policies

9. Strengthen services and guidance for building key integrated circuit projects and provide guidelines and regulations for integrated circuit industry development. Complete layout planning, improve risk warnings, and avoid redundant low-level projects.

10. Encourage and support stronger resource integration among integrated circuit and software makers and complete company mergers and acquisitions according to market

principles. The relevant departments of the State Council and local governments must actively support and guide such mergers and acquisitions (M&As) and not establish any form of restrictive conditions other than laws, regulations, or policies.

11. Take full advantage of existing national and local investment funds to support the development of the integrated circuit and software industries, encourage social capital[1] according to market principles, provide funding through multiple channels, set up investment funds, and increase the funds' level of marketization (市场化).

12. Encourage local governments to set up loan risk compensation mechanisms, support the granting of business loans in the integrated circuit and software industries through such measures as intellectual property (IP) pledge financing, equity pledge financing, accounts receivable pledge financing, supply chain finance, and S&T and IP insurance, etc. To take full advantage of financing guaranty institutions, actively provide all types of financing guaranty services to small and micro enterprises in the integrated circuit and software fields.

13. Encourage commercial financial institutions to further improve financial services and increase their support for mid- to long-term lending to the integrated circuit and software industries and actively create suitable lending products for the development of the integrated circuit and software industries. If risks can be controlled and business is sustainable, increase lending support to key projects. Advise insurance funds on making equity investments and provide support to banking and non-banking financial institutions, such as financial management companies, insurance companies, trusts, etc. to start creating specialized asset management products.

14. Vigorously support the foreign and domestic initial public offerings (IPOs) of eligible integrated circuit and software companies and accelerate the domestic IPO review process. Research and development expenses that meet the relevant conditions laid out in the Accounting Standards for Business Enterprises may be capitalized. Encourage and support the listing of eligible companies on the STAR Market[2] and the Growth Enterprise Market (GEM)[3] and clear the way for the original investors of the relevant companies to exit. Using the various levels of the capital markets, provide services such as equity financing, equity transfers, etc. to integrated circuit and software companies in various stages of development, expand direct funding channels, and increase the proportion of direct financing.

15. Encourage eligible integrated circuit and software companies to issue enterprise bonds, corporate bonds, short-term financing bonds, and medium-term notes, etc. Expand the channels through which companies can receive financing and support companies in raising funds through medium- and long-term bonds on the bond market.

III. Research and Development Policies

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[1] Translator's note: The Chinese term 社会资本, translated literally as "social capital," and its synonym 社会资金 "social funding," refer to any source of funding outside of government budget outlays. These terms encompass investment by private individuals and private institutions. However, investment from state-funded entities such as state-owned enterprises (SOEs), including state-run banks, also falls under the umbrella of "social capital" or "social funding."

[2] Translator's note: The Sci-Tech Innovation Board (科创板), or STAR Market, is a board of the Shanghai Stock Exchange.

[3] Translator's note: The GEM (创业板) is a board of the Hong Kong Stock Exchange.

16. Focus on the research and development of key core technologies for high-end chips, integrated circuit equipment and technologies, key integrated circuit materials, integrated circuit design tools, basic software, industrial software, and utility software (应用软件). Continuously explore and build a new national system of key core technological advancement that meets the conditions of the socialist market economy. The Ministry of Science and Technology, the National Development and Reform Commission, the Ministry of Industry and Information Technology, and other departments shall organize and carry out the relevant work, actively make use of key national R&D programs and support key national S&T projects.

17. Promote the creation of various types of innovation platforms in the areas of advanced memory, advanced computing, advanced manufacturing, high-end packaging testing, key equipment and materials, and new generation semiconductor technology that take the characteristics of the industry into account. The Ministry of Science and Technology, the National Development and Reform Commission, the Ministry of Industry and Information Technology, and other ministries shall prioritize support for relevant innovation platforms to implement R&D projects.

18. Encourage software companies to implement Chinese national standards related to software quality, information security, R&D management, etc. Strengthen the standardized organization and building of integrated circuits, improve standards frameworks, standards compliance verification and R&D capacity. Improve the quality of integrated circuits and software and make the industry more competitive.

IV. Import and Export Policies

19. For a certain period of time, key integrated circuit and software companies receiving state support that must temporarily import equipment for their own use (including development and testing equipment), hardware and software, prototypes, components, and parts that comply with the necessary provisions may complete customs formalities for the temporary importing of goods, and import duties shall be levied in accordance with current laws and regulations.

20. For software companies that sign software export agreements with foreign companies with relatively high credit ratings, financial institutions may provide financial and insurance support provided that loans are approved independently and risk levels are managed.

21. Promote the export of integrated circuit, software, and information technology services, vigorously develop international outsourcing services, and support companies in setting up websites for overseas sales. The Ministry of Commerce will set up mechanisms for long-term partnerships with key countries and regions through the relevant departments and take comprehensive measures to create conditions for companies to expand into emerging markets.

V. Talent Policies

22. Further bolster the creation of college and university majors related to integrated circuits and software, accelerate efforts to create first-level disciplines (一级学科) related to integrated circuits, adjust curricula, teaching plans, and teaching methods in real time by sticking closely to what is needed for the industry to develop, and work hard to cultivate high-level multidisciplinary and practical talents. Support the creation of more specialized

teaching faculties, teaching laboratories, and practice and training bases for integrated circuits and software. The Ministry of Education shall improve its oversight and guidance in conjunction with the relevant departments.

23. Encourage qualified colleges and universities to take steps to collaborate with integrated circuit makers and to accelerate and promote the creation of exemplary microelectronics institutes. Prioritize the creation of companies that integrate production with education and cultivate the field of integrated circuits. Invest in companies that integrate production with education to create pilot incubation enterprises. Investments to set up vocational training fall under this provision and can account for 30% of the invested amount to offset the educational surtax and local educational surtax the company is required to pay for that year. Encourage relevant industrial investment funds from society (社会相关产业投资基金) to increase their investments to support colleges and universities joining businesses in the creation of special resource banks to provide training for integrated circuit personnel. Support cooperation between well-known international universities, multinational companies, exemplary microelectronics institutes, and unique and exemplary software institutes, recruit foreign teaching faculty and high-quality resources and work together to cultivate talented individuals in integrated circuits and software.

24. Encourage local honors and prizes in the fields of integrated circuits and software according to relevant national provisions so that top individuals and high-level engineers and R&D and design personnel make outstanding contributions, and improve equity incentive plans. Intensify efforts to recruit top specialists and excellent talent and teams using relevant talent programs. Prioritize exploring relevant policies in industrial agglomerations or relevant industrial clusters to recruit talented integrated circuit and software workers. Draw up and implement annual plans to recruit and train talented integrated circuit and software personnel, promote the creation of national integrated circuit and software talent training bases with international ties, and emphasize the improvement of mid- and long-term training for urgently needed professionals.

25. Increase industry self-regulation and encourage the rational and orderly flow of integrated circuit and software personnel so as to avoid harmful competition.

VI. Intellectual Property Policies

26. Encourage companies to register for exclusive rights to integrated circuit layout designs and software copyrights. Support integrated circuit makers and software companies in legally applying for intellectual property rights (IPR), and provide appropriate support to those that comply with the relevant provisions. Rigorously develop relevant IP services for integrated circuits and software.

27. Strictly implement mechanisms to protect integrated circuit and software IPR and make punishments for IPR infringement and violations more severe. Ensure better protection of exclusive rights to integrated circuit layout designs and network-based software copyrights and actively develop and implement technology that protects the internet copyrights of genuine software so as to effectively protect integrated circuit and software IP.

28. Explore the establishment of long-term mechanisms that ensure software is genuine. Preinstalled software must be genuine wherever computers (including mainframe computers,

servers, microcomputers, and laptops) are sold in China. The sale of computers with illegal preinstalled software copies is prohibited. Implement a comprehensive government policy whereby government institutions must use genuine software. For shared software, implement a government group-buying plan and improve software asset management. Promote the systematized and standardized use of genuine software in important industries and key areas. Increase propaganda, training, supervision, and inspection surrounding the use of genuine software and create an environment that is conducive to the use of genuine software.

VII. Market Application Policies

29. Use a policy-guided, market application-driven approach and increase the promotion of innovative integrated circuit and software products to continuously advance both technology and the industry.

30. Promote the development of integrated circuit and software industrial agglomerations, support the creation of industrial clusters for IT services and integrated circuits, and support the specialized and high-end development of software industrial parks.

31. Support innovators, such as key integrated circuit and software companies, scientific research institutes, colleges and universities, etc., in the creation of various types of specialized innovative service institutions, epitomized by specialized makerspaces (众创空间). Optimize the allocation of innovation resources, such as technology, equipment, capital, markets, etc., and provide targeted, specialized services in the integrated circuit and software fields as dictated by the market for the integrated development of large, medium, and small enterprises. Increase the level of support for specialized service platforms that serve specialized makerspaces, S&T company incubators, and university S&T parks in the integrated circuit and software fields so as to increase their ability to provide specialized services.

32. Actively provide guidelines for the business development and service outsourcing for IT R&D and applications. Encourage government agencies to make the building of an electronic government affairs system and data center, as well as data processing, a part of their governmental responsibilities by how they purchase services. Services that are suitable for provision based on the market shall be taken up by qualified software and IT service agencies. Promptly draw up and improve applicable security screening and confidentiality management provisions. Encourage large- and medium-sized enterprises to rely on operational IT R&D and application entities to set up specialized software and IT service companies.

33. Work to improve mechanisms that protect the privacy of online consumers and trade secrets and promote the networkized (网络化) development of software and IT services. In government agencies and institutions at every level, make the use of software products and services that meet security requirements more widespread.

34. Further standardize the market order of the integrated circuit and software industries, strengthen antitrust laws, crack down on all forms of anti-competitive behavior as provided by law, conduct operator antitrust investigations, and protect fair competition in the integrated circuit and software markets. Strengthen the enforcement of laws against unfair competition and crack down on all forms of unfair competition as provided by law.

35. So that industry associations and standardization bodies are utilized to their fullest potential, accelerate the drafting of standards related to integrated circuits and software, make

integrated circuit quality assessment more commonplace, and popularize standards for measuring software development costs.

VIII. International Cooperation Policies

34. Strengthen global cooperation within the integrated circuit and software industries and actively create an environment that is conducive to investment by foreign companies and growth in China. Encourage Chinese colleges, universities, and S&T research institutions to cooperate more with high-level overseas universities and research institutions and encourage international companies to build research centers in China. Increase communication and exchange between Chinese industry associations and foreign industry organizations, support Chinese companies in launching cooperation with international companies both in China and overseas, and fully participate in the division of labor and coordination of work in the international market and in the drafting of international standards.

37. Encourage the integrated circuit and software industries to "go global" ("走出去"). Make it easier for Chinese companies to build R&D centers overseas. Take fuller advantage of international innovation resources to upgrade the development of the industry. The National Development and Reform Commission, the Ministry of Commerce, and other relevant departments shall improve their service levels in order to create an environment that is conducive to corporate investment and other forms of collaboration.

IX. Additional Policies

38. All qualified integrated circuit companies (including design, production, packaging, testing, equipment, and materials companies) and software companies, regardless of where they are set up in China or their ownership structure, may benefit from these policies.

39. The National Development and Reform Commission, in conjunction with the Ministry of Finance, the State Administration of Taxation, the Ministry of Industry and Information Technology, the Ministry of Commerce, the General Administration of Customs, and other relevant departments, is responsible for explaining these policies

40. These policies shall be effective as of their date of publication. Continue to implement the policies delineated in Document (2000) No. 18 and Document (2011) No. 4. If there is a discrepancy between those policies and these policies, these policies shall take precedence.