

Dongguan Offers Incentives to Attract More Corporate HQs

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On 5th Jul 2018, Dongguan Municipal Government (hereinafter "Dongguan government") released the "Opinion on Encouraging the Development of Headquarters Economy in Dongguan" (Dongfufa [2018] No.13, hereinafter "the Opinion"). By upgrading the current policies to offer greater incentives, the Opinion is aimed at luring more establishment of corporate headquarters. The report will give a brief introduction to the main policies of the Opinion.

BACKGROUND

Dongguan, a manufacturing hub in Guangdong Province known as the "world's factory", joined its neighbours Guangzhou and Shenzhen at optimizing its industrial structure to further enhance economic development. With the aim of encouraging the implementation of structural reform, the Dongguan government issued the "Working Plan on Encouraging the Development of Headquarters Economy" and the "Interim Measures for Recognizing Corporate Headquarters in Dongguan" (Dongfu [2009] No.68) in June 2009 to encourage the establishment of corporate headquarters. Since then, the Dongguan government revised its policies and released "Detailed Rules for Implementation of Policy on Encouraging the Development of Corporate Headquarters (for Trial Implementation)" (Dongfuban [2010] No.47) in 2010.

Over the past 8 years, well-known MNCs including Poly Property, Huawei, Dajiang Innovation (DJI) and OPPO have acquired headquarter status and clustered in places such as Nancheng International Business District, Songshanhu High Tech Industrial Development Zone and Binhai New Area. In order to achieve the sustainable growth target, the Dongguan government updates its previous policies and issued the Opinion. Apart from attracting investment from outside, the Opinion also emphasizes the incentives to boost local companies' development.

HIGHLIGHTS

1. Requirements and Criteria

The Opinion has set requirements and criteria to accredit two types of corporate headquarters, namely Regional Headquarter (hereinafter "RHQ") and Functional Headquarter (hereinafter "FHQ"). In comparison with the previous policies, general requirements and specific criteria to differentiate headquarters with different functions have been made clearer. While the recognition criteria for manufacturing and service related industries have been tightened, the criteria for industries in line with Dongguan's industrial development policies such as emerging industries, information technology and computer related industries has also been clarified, and the minimum registered capital and net assets for setting up RHQ/FHQ have been abolished. In addition, the Opinion added that the top ranked corporates can obtain headquarter status directly without fulfilling the standard requirements and criteria concluded in the table below.

【 Table 1 Recognition Requirements and Criteria for RHQ and FHQ】

	Regional HQs (RHQ)	Functional HQs (FHQ)
Standard Recognition Requirements	<ul style="list-style-type: none"> An independent legal entity in Dongguan Tax consolidation in Dongguan In line with the direction of Dongguan’s industrial development Undertakes comprehensive management functions including settlement, capital management, administration and R&D, to its subordinates Controls at least 3 enterprises <u>outside Dongguan</u> through investment or authorized management arrangement; and those enterprises shall contribute at least 20% of the RHQ’s revenue 	<ul style="list-style-type: none"> An independent legal entity in Dongguan Performs one of the following management functions including sales, operations or R&D under the authorization of the parent company
Recognition Criteria by Industry/ Functions	<ul style="list-style-type: none"> Business Service/Modern Logistics Industry: Sales revenue of no less than RMB2 billion and annual tax payment of no less than RMB200 million Finance Industry: Sales revenue of no less than RMB1 billion and annual tax payment of no less than RMB100 million Manufacturing¹/Construction² Industry: Sales revenue of no less than RMB500 million and annual tax payment of no less than RMB50 million Education/Hygiene/Cultural Tourism Industry: Sales revenue of no less than RMB200 million and annual tax payment of no less than RMB12 million Emerging Industry³/Information Technology/Computer/Software Industry: Sales revenue of no less than RMB100 million and annual tax payment of no less than RMB10 million Other Industries: Sales revenue of no less than RMB500 million and annual tax payment of no less than RMB50 million 	<ul style="list-style-type: none"> Sales Function: Sales revenue of no less than RMB500 million and annual tax payment of no less than RMB30 million Operational Function: Sales revenue of no less than RMB300 million and annual tax payment of no less than RMB20 million, and 3 enterprises under authorized control R&D Function: furnished with a steady source of funding and necessary conditions to carry out research, development, and experiment; and total R&D expenses in the previous year shall be no less than RMB50 million
Criteria for Direct Recognition	<ul style="list-style-type: none"> Ranked as Global Top 500⁴, China Top 500⁵ or China Service Industry Top 100⁵ last year. Top ranked corporations recognized by Chinese Government.⁶ 	

2. Preferential Policies

The Opinion has raised the maximum reward for headquarter establishment/relocation in Dongguan significantly from RMB10 million⁷ to RMB100 million. The Opinion has also make it eligible for headquarters upgraded by local companies to enjoy the rewards to support the development of local companies. In addition, the Opinion has increased the office rental/purchase subsidy and enriched supportive measures in hope to reduce financing cost and facilitate talent acquisition to carry out business in Dongguan.

¹ Exclude emerging industries

² Must be a Grade 1 holder of Construction Enterprise Qualification

³ Refers to 10 emerging industries in 5 areas including electronic information, high-end equipment manufacturing, new material, new energy and biotechnology industry.

⁴ A ranking list compiled and published annually by Forbes Magazine

⁵ A ranking list compiled and published annually by China Enterprise Confederation and China Enterprise Directors Association

⁶ Leading enterprises recognized by the State Council which have close ties with national economy, national security, important infrastructure and natural resources

⁷ One-time rewards of RMB 5 -10 million will be offered to the formation of corporate headquarters based on investment size and the company’s contribution to Dongguan’s economy (Detailed Rules for Implementation of Policy on Encouraging the Development of Corporate Headquarters (for Trial Implementation), Dongfuban [2010] No.47)

【Table 2 Highlights of the Preferential Policies】

Policy Highlight	
Headquarter Establishment/Relocation Reward	<p>Rewards are offered depending on a company's investment scale and its contribution to the local treasury:</p> <ul style="list-style-type: none"> • New establishment or relocation of RHQ: A one-time reward from RMB2-100 million • New establishment or relocation of FHQ: A one-time reward from RMB1-50 million • New establishment of a Dongguan subsidiary or upgrade of a Dongguan branch into subsidiary by a non-Dongguan-based headquarter or an A-share listed company in China: A rebate of 80% of the company's contribution to the local treasury in case the company achieves an annual tax payment of no less than RMB10 million • New investment project: A reward of 1% of the paid-in capital within 2 years after the establishment/relocation of RHQ/FHQ to Dongguan, up to RMB20 million each company
Rewards to Upgrade a Local Company into a Headquarter	<ul style="list-style-type: none"> • Acknowledgement of a local company into a headquarter: A one-time reward of 1% of the company's contribution to the local treasury in the past 5 years, up to RMB50 million each company • Headquarter newly established through M&A by a local company: A rebate of 80% of the stamp duty, up to RMB10 million; and a rebate of 80% of the increment on the individual income tax retained by Dongguan, up to RMB1 million
Revenue Increment Rewards	<ul style="list-style-type: none"> • In comparison with the year that the company has made its highest tax contribution within the most recent three years, if the tax increment rate exceeds 20% but within 40%, 60% of the increment is rebated; if the tax increment rate exceeds 40 but within 60%, 70% of the increment is rebated; if tax increment rate exceeds 60%, 80% of the increment will be rebated • A reward of RMB0.5 million, 2 million and 5 million will be rewarded respectively if a company is ranked as Guangdong Province Top 100⁸, China Top 500 and Global Top 500 for the first time after its acknowledgement as a RHQ/FHQ
Subsidies on Rental and Purchase of Office Space	<p>Subsidies will be offered depending on the company's contribution to the local treasury:</p> <ul style="list-style-type: none"> • 50% of the rent will be subsidized with the longest subsidizing period of 3 years and the ceiling amount of RMB2 million per annum • One-time subsidy of 5% of the purchase price will be offered with the ceiling amount of RMB10 million
Financing Cost Reduction	<ul style="list-style-type: none"> • 30% of interest cost on the increment of liquidity loans issued in the previous year will be subsidized with the ceiling amount of RMB3 million • Headquarters newly listed in major domestic or foreign stock exchange will receive a one-time reward of 0.5% of fund raised, with the ceiling amount of RMB8 million • 2% of the fund raised from direct financing tools⁹ will be subsidized to non-listed headquarters, with the ceiling amount of RMB1 million
Talent Acquisition	<ul style="list-style-type: none"> • Senior executives are entitled to a full rebate on individual income tax retained by Dongguan • Set up "green channel" for senior executives and their families to facilitate the application for working permit and residence permits. • Senior executive are entitled to a subsidy up to RMB2 million (one time reward) and RMB3,000 (monthly reward, up to 3 years) respectively for house purchase and rental • Headquarter may set up a collective household account, in which eligible talents are able to enjoy the same preferential policies that a local household account holder enjoys • Provides employees of corporate headquarters with entry-exit convenience to Hong Kong and Macau for business purpose

⁸ A ranking list compiled and published annually by Guangdong Provincial Enterprise Confederation and Guangdong Provincial Association of Entrepreneurs

⁹ Includes corporate bond, asset securitization, commercial paper and medium-term note

CONCLUSION

The Opinion reveals Dongguan's attempt to put more resources in enhancing the development of local companies. It also reflects Dongguan's intention to attract big-scale investors by setting up higher standard on sales revenue and tax contribution at applying for RHQ status based on industries. However, comparing to the nearby urban area, the preferential policies offered by Dongguan are still favourable, which made it a competitive location for corporate headquarters consideration. Implementing details of the Opinion is expected to be announced in the near future and we will continue to follow up closely.

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