

Major boost for Integrated Circuit and Industrial Mother Machine enterprises: Non-monetary asset exchanges eligible for 5-year deferred tax payment

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In brief

Integrated Circuit (IC) and Industrial Mother Machine (IMM) enterprises frequently engage in cross-entity transactions in their daily operations and technology iterations, including contributing non-monetary assets such as specialized equipment and patented technologies as equity investments, asset exchanges, or production line replacements and integrations. Under the current tax policies, enterprises making non-monetary asset investments may enjoy a 5-year installment payment of tax pursuant to Caishui [2014] No. 116; enterprises investing with technological achievements may elect to defer taxation until the transfer of equity pursuant to Caishui [2016] No. 101; and if asset or equity transactions meet the conditions for special tax treatment under Caishui [2009] No. 59 or Caishui [2014] No. 109, the corresponding deferral treatment may apply. Beyond these, for non-monetary asset exchanges between enterprises involving fixed assets, intangible assets, or equity that do not qualify for the aforementioned tax incentives, the transactions shall be deemed as sales of goods or transfers of properties under the

Corporate Income Tax (CIT) Law, and the transfer income shall be recognized and CIT paid at once in the same period when the transaction occurs.

Since asset exchanges do not generate immediate cash inflows and often involve substantial transaction amounts, enterprises face significant cash flow and tax burden. To support IC and IMM enterprises, on 31 July 2026, the Ministry of Finance (MOF), State Taxation Administration (STA), National Development and Reform Commission (NDRC), and Ministry of Industry and Information Technology (MIIT) jointly issued the Public Notice Regarding CIT Treatments to Non-monetary Asset Exchanges for IC and IMM Enterprises (Public Notice [2026] No. 23, hereinafter referred to as “Public Notice No. 23”)¹. The Public Notice clarifies that income recognized from non-monetary asset exchanges by IC enterprises and IMM enterprises may be evenly included in the taxable income of the corresponding years over a period not exceeding 5 years. Following the increase in the R&D expense super deduction ratio to 120% for IC enterprises and IMM enterprises, Public Notice No. 23 provides further income tax support and will directly alleviate the immediate tax burden faced by relevant enterprises in asset restructuring and technology replacement. In this issue of China Tax/Business News Flash, PwC will analyze the core provisions of Public Notice No. 23, examine its coordination with existing industrial tax incentives, and share our observations.

In detail

Core provisions of the policy

IC and IMM enterprises that conduct non-monetary asset exchanges during the period from 1 January 2026 to 31 December 2028 may evenly include the recognized exchange income in the taxable income of the corresponding years over a period not exceeding 5 years; losses incurred from non-monetary asset exchanges shall not be recognized on an installment basis.

- **Eligible entities:** IC and IMM enterprises that meet the standards set forth in MOF, STA, NDRC, and MIIT Public Notice [2023] No. 44. Among these, IC manufacturing enterprises, IC design enterprises, and IMM enterprises are subject to list-based management, with the NDRC and MIIT providing the MOF and STA with the list of eligible enterprises for the preceding year by the end of March each year as required; IC equipment, materials, packaging, and testing enterprises are not subject to list-based management, and eligible enterprises shall self-assess, file and enjoy the incentives, retain relevant documentations for future inspection, with tax authorities seeking verification from NDRC and MIIT. It should be noted that, unlike periodic CIT exemptions and reductions and R&D expense super deduction, regardless of whether the enterprise has been included in the list for the preceding year, income from non-monetary asset exchanges may not be directly deferred during CIT pre-payment.

Therefore, enterprises should communicate with their in-charge tax authorities and conduct multi-year cash flow projections in advance.

- **Rules applicable to both transacting parties:** If both parties to a non-monetary asset exchange are IC enterprises or IMM enterprises, both parties may enjoy the installment policy under Public Notice No. 23; if not, the enterprises other than IC enterprises or IMM enterprises shall recognize the income from the non-monetary asset exchange according to current policies.
- **Definition of non-monetary assets:** Assets other than monetary assets such as cash, deposits, accounts receivable, notes receivable, and bond investments held to maturity, etc.
- **Income from non-monetary asset exchange** = Fair value of the non-monetary assets received - Tax basis of the non-monetary assets transferred - Related taxes and fees.
- **Tax basis of non-monetary assets received** = Fair value of such assets and related taxes and fees paid.
- **Mixed transactions involving both non-monetary and monetary assets:** Only the portion involving the exchange of non-monetary assets for non-monetary assets may enjoy installments; the monetary consideration received shall be fully recognized and taxed in the current period.
- **Disposal or dissolution within 5 years - recapture rules:** If an enterprise transfers the assets acquired from the exchange or undergoes dissolution within 5 years after the exchange, the installment policy shall cease to apply, and the unrecognized income from the non-monetary asset exchange shall be paid at once in the annual CIT filing for the year of transfer or dissolution.
- **Effective period of the policy** is from 1 January 2026 to 31 December 2028. Enterprises that have not completed the 5-year installment period by the end of 2028 may continue enjoying until the period expires, notwithstanding the expiration date of the policy.

Coordination with periodic tax exemptions/reductions for IC enterprises and other deferred tax incentives

Periodic CIT exemptions/reductions for IC enterprises: Guofa [2020] No. 8 and MOF, STA, NDRC, and MIIT Public Notice [2020] No. 45 provide state-encouraged IC enterprises with periodic tax relief such as a 10-year exemption, a 5+5 tax holiday (i.e., a 5-year exemption and a 5-year half-rate reduction, same below), and a 2+3 tax holiday, and extend the loss carry-forward period to 10 years. However, for IC enterprises currently in the tax exemption period, half-rate period, or the 10% reduced rate period, the effect of installments under Public Notice No. 23 is relatively limited and may even adversely increase tax burden. Enterprises should comprehensively assess whether to elect the installment policy for non-monetary asset exchanges under Public Notice No. 23 based on their current tax incentive cycle and future tax burden expectations.

Coordination with existing installment and deferred tax payment policies: Where IC enterprises or IMM enterprises make non-monetary asset investments, Public Notice No. 23 shall not apply; instead, the 5-year installments under Caishui [2014] No. 116, or preferential treatment for qualified equity investment by using technologies under Caishui [2016] No. 101, shall continue to apply.

If a non-monetary asset exchange by IC enterprises or IMM enterprises also meets the conditions for special tax treatment applicable to all industries under Caishui [2009] No. 59 or Caishui [2014] No. 109, the enterprise may elect to apply one of the policies and once chosen, the election cannot be changed. For enterprises with no near-term plans to dispose the equity received in the exchange, electing special tax treatment under Caishui [2009] No. 59 or Caishui [2014] No. 109 can virtually indefinitely defer respective income. Compared to spread tax payments over 5 years, special tax treatment offers a more significant time value advantage over Public Notice No. 23 and Caishui [2014] No. 116. It is worth noting that special tax treatment retains the original asset's tax basis, whereas Public Notice No. 23 steps up the tax basis of the assets received to fair value. For enterprises in the aforementioned periodic tax relief periods, recognizing income in a lump sum or electing Public Notice No. 23 to release income in installments during the low-tax period, while locking in higher depreciations and amortizations in future years, may result in a more favorable overall tax burden across the full cycle. Enterprises are advised to make quantitative assessments based on their profit expectations and tax rates before making a decision.

The takeaway

The issuance of Public Notice No. 23 further enriches the special treatment rules for asset restructuring in the CIT domain, opening up a more favorable installment tax payment channel for IC and IMM enterprises in production line adjustments, patent technology replacements, and other industrial chain asset integrations. Enterprises intending to enjoy this policy should accurately confirm their eligibility, pay close attention to the list application process which usually runs in March and April each year, and prepare supporting documentation such as invention patents and annual corporate accounting reports for the tax year. Besides, enterprises should promptly sort out existing and potential non-monetary asset exchange demands, seize the policy window in a timely manner, and maximize the utilization of the deferral policy while ensuring compliance.

Enterprises eligible for multiple tax incentives should prudently make selections and comprehensively assess the tax burden and cash flows of different paths before making transactions. In addition, enterprises should pay special attention to the recapture rules for disposal or dissolution within 5 years, incorporate subsequent management into initial planning, and fundamentally avoid cash flow pressure caused by concentrated tax payments.

Endnote

1. Public Notice Jointly Issued by the MOF, STA, NDRC and MIIT Regarding CIT Treatments to Non-monetary Asset Exchanges for Integrated Circuit Enterprises and Industrial Mother Machine Enterprises (MOF, STA, NDRC, and MIIT Public Notice [2026] No. 23)
https://szs.mof.gov.cn/zhengcefabu/202608/t20260814_3995441.htm

Let's talk

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News Flash

China Tax and Business Advisory

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