Overview

In recent years, with the development of Internet technology and entering the era of Internet+, many traditional industries (including the retail sector), following the Internet revolution, have ushered in the era of cross-border e-commerce and online and offline integration, not just operating business in traditional physical stores.

Regarding cross-border e-commerce business, different models in practice have their own pros and cons and need to be selected depending on the commercial circumstances of an enterprise.

Regarding Internet-related high-tech and software research and development, China has given corresponding tax preferential policies to support it, but not all industries and enterprises can enjoy them.

This insight into the operation and structure under New Retail can provide a reference for the retail industry and many other traditional industries for business, tax and legal planning in the Internet+ era.

Consideration of business model

A well-known group company specializing in retail business has many retail stores in China nationwide. In order to explore the transformation for New Retail under Internet+ Model, the Group not only engages third-party online malls as retail platforms, but also spends huge costs building overseas cross-border e-commerce business and develops its own APP to develop online retail business.

In order to improve internal management efficiency, the Group has also adopted a series of innovative management strategies, including developing its own internal management software and implementing systematic management upgrades in all aspects of its operations. However, the Group faces a series of challenges:

- The existing Direct Parcel Model under cross-border e-commerce has problems such as low business efficiency, poor customer experience, and limited sales scale;

- App and other internal R&D expenses cannot enjoy the R&D expense super deduction policy. According to the relevant provisions of the Notice of the Ministry of Finance, the State Administration of Taxation, and the Ministry of Science and Technology on Improving the Pre-tax Super Deduction Policy for Research and Development Expenses, the wholesale and retail industries are prohibited industries that cannot enjoy the R&D expense super deduction policy;

- The group revenue is all wholesale and retail sales revenue, not high-tech related income, which results in a disqualification of high-tech enterprise, nor can enjoy a series of preferential policies that apply to high-tech
The Group’s business structure is the crux of the problem. By analyzing the actual business operations of the Group, the adoption of Bonded Model under cross-border e-commerce, the separation of research and development functions and the introduction of a centralized procurement structure can improve the efficiency of business operations and reduce the overall tax burden of the Group. The adjusted structure is as follows:

**Group Procurement Center (newly established)**
- Procurement from external suppliers through the newly established Group Procurement Center
- Reasonably choose the location of the Group Procurement Center to achieve the most efficient financial subsidy policy
- Through transfer pricing, balance the profit level among the Group’s procurement center and retail stores

**Software Development Center (newly established)**
- Develop software products that meet the needs of the Group
- Sell software and collect the software license fee to reduce the Group's VAT tax burden
- Apply for preferential tax policies to reduce the overall corporate income tax burden of the Group

**Group’s overseas companies (newly established)**
- Centralized purchase of cross-border e-commerce products
- Obtain online customer order information and instruct logistics platforms to complete the delivery
- Reasonably choose the country where the Group's overseas company is registered to optimize the operating costs

**Cross-border e-commerce logistics platform (engaged)**
Our observation

Through the adjustment of the above structure and business model, the Group can enjoy the following preferential policies:

- R&D expense super deduction as well as relevant preferential policies for software companies, including value-added tax and corporate income tax related preferential treatments;
- Secure competitive financial subsidies for the Group's Procurement Center and Software R&D Center through appropriate location study;
- Tax optimization of the entire group through establishing reasonable transfer pricing policies; and
- Utilize cross-border e-commerce bonded model, improve supply chain efficiency and customer shopping experience to achieve large-scale sales growth.

In order to achieve legal and compliant business arrangements, the Group needs to obtain the support from external legal advisers to fully analyze and assist in the following aspects:

- Design a reasonable business operation model and transfer pricing policy according to the specific situation of the Group;
- Carefully analyze relevant R&D preferential policies, and consider relevant factors during business segregation;
- Research on location study of the newly established company, negotiate with the local government on behalf of the company and reach investment agreements to ensure the safety, stability and predictability of subsequent operations;
- Participate in the project management during the entire business reorganization process and the coordination between various departments within the Group to ensure the smooth and stable operation of the business.

Our service

The structural adjustment and business planning for New Retail and similar other industries can effectively reduce the operating costs of enterprises, improve operational efficiency, and support to achieve commercial success. After the planning is completed, the savings can generally reach several million to tens of millions RMB.

We can assist in evaluating existing models, recommend adjustments, and assist in the overall implementation plan to maximize planning effectiveness, which includes:

- Formulate business structure, related party transactions and transfer pricing policies for enterprises;
- Assist enterprises to make relevant tax incentives and qualification applications, including value-added tax refund and software enterprise certification, etc.;
- Assist enterprises to complete the preparations for relevant qualifications, such as the distribution and application of relevant intellectual property rights, testing, reports, etc.;

- Assist enterprises by providing professional support during their location study and signing of relevant investment agreements to obtain optimized financial subsidies;

- Assist in cross-border e-commerce model selection, logistics platform location selection, third-party supplier selection, business negotiations with e-commerce logistics platforms, etc.;

- Participate in the overall management of the project, set up operation procedures of customs, logistics, warehousing, and allocation of operation resources;

- Assist in drafting and reviewing contracts, and participating in trial operation to ensure the actual landing of the project;

- Assist in communicating with competent authorities, including investment bureaus, customs, tax bureaus, etc., and managing the relevant risks.

**Your Key Contacts**

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