

# ABOUT CHINA

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## Introduction

Since opening its doors to foreign investors in 1978, China has grown into a global economic power that cannot be ignored. Today, as the world's third largest economy by GDP (IMF, 2009), China's appeal to foreign investors continues unabated not only as a source of low cost manufacturing, but as a seemingly limitless land of opportunity. True, China has developed at unprecedented rates in terms of regulatory environment, infrastructure, domestic demand for goods and services, and quality control. However, many challenges still remain from where to locate a new business, to what type of company is needed, and what is an efficient and effective manner of repatriating after-tax profits to the parent company.

## Common types of company

The type of corporate entity established in China is determined by the nature of the business activities in which the foreign investor wishes to engage. The most frequent types of corporate presence used by foreign investors include:

- Representative Office (RO)
- Joint Venture (JV)
- Wholly Foreign-Owned Enterprise (WFOE)
- Foreign Invested Commercial Enterprise (FICE)

Each vehicle is unique and has differing documentary requirements, incorporation protocols, and capitalization guidelines. Likewise, each has different advantages and disadvantages. In many parts of China, and in fact, in many Chinese cities, such requirements may differ from location to location depending on provincial, local or even municipal interpretations.

## Tax system

China's domestic tax system has undergone a drastic overhaul in the past decade with the State Administration for Tax seeking to close previously existing loopholes and increase tax revenues from both foreign and domestic entities doing business in China. Taxes are levied at both the State and local level dependent upon the nature of the tax being collected. Typically, taxes collected include:

- Enterprise Income Tax
  - Levied once a year on all income attributed to the Chinese entity at a rate of 25%
- Withholding tax
  - Interest, rent, royalties and other forms of passive income are generally subject to 10% withholding tax (even if there is no legal entity in China) unless otherwise determined under a Double Taxation Agreement. Dividend income paid by a foreign company in China is exempt from withholding tax within China however, will be subject to a varying rate of withholding tax (depending on jurisdiction) when such dividends are repatriated to the overseas parent company.


- Value-Added Tax
  - VAT is applied to all goods and services in China at a variable scale of between 0%-17%. In the case of exported goods, exporters may apply to the tax authorities for a VAT rebate of between 3%, 5%, 8%, 13% and 17% depending on how such products are classified by the State Administration for Tax.
- Business Tax
  - Business Tax is applied at a scaleable rate of between 3%-20% and is levied on any enterprise or individual engaged in the provision of taxable services, transfer of intangible assets or in sales of immovable properties within China.
- Consumption Tax
  - Consumption Tax is collected at rates of between 1%-50% on all enterprises, household businesses and other individuals engaged in the production or importation of luxury consumer goods within China. Exports are exempt from this tax.
- Individual Income Tax
  - Any individual who has domicile in China or who has resided in China for one year or more shall pay Individual Income Tax on worldwide income.

Any individual who is neither domiciled nor resident in China or who has resided in China for less than one year shall pay Individual Income Tax on the income from sources inside China. Individual income tax is collected on a progressive scale ranging between 5%-45%.

China has also engaged on an aggressive expansion and revision of its Double Taxation Agreements with many jurisdictions, concluding 95 DTAs by early 2010. Hong Kong and Macau, as Special Administrative Regions of China, enjoy separate tax systems, but preferential tax relationships, with China.

## The China-Hong Kong relationship

Ever since Hong Kong was first ceded to the British in 1842, the territory has acted as the perfect gateway for foreign companies doing business in China. When China "resumed" sovereignty over Hong Kong on 1st July 1997, many feared the benefits that Hong Kong's former status as a British Colony endowed would be gradually eroded. However, as history has proven, this has not been the case. Today, Hong Kong is governed as a Special Administrative Region, responsible for self-governance in all but military and foreign affairs. Importantly, the territory has retained an entirely independent legal environment (still based on British Common Law), a simple and low (or no) tax system,



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### The China-Hong Kong relationship (continued)

a highly sophisticated banking and finance sector, and a world-class trading and logistics infrastructure. Coupled with CEPA (The Closer Economic Partnership Arrangement) and a Double Tax Agreement with China that provides Hong Kong companies with considerable withholding tax advantages when holding foreign investments in China, Hong Kong remains the single largest investor in China supporting over 33% of total foreign capital inflows into the country.

### Vistra China's services

Vistra China provides a full suite of corporate services to clients seeking to do business in China encompassing pre-incorporation advisory, company formation, and on-going value-added services to ensure compliance, control, and transparency:

- Company Formation and Management
  - Incorporation of Chinese commercial entities (Wholly Foreign-Owned Enterprises, Foreign Invested Commercial Enterprises, and Joint Ventures), registration of Representative Offices, and strategic offshore structures through our global network of Vistra offices to complement the holding of your Chinese structures.
- Company Secretarial Services
  - Preparation of board & shareholders meetings;
  - Maintenance of appropriate statutory records;
  - Risk mitigation via control of company chops & maintenance of statutory files;
  - Setting up of bank accounts;
  - Processing of annual company inspections and mandatory filings of annual tax returns with the relevant authorities.
- Accounting, Tax Compliance & Related Advisory Services
  - Coordinating with banks, the tax authorities, and various government departments to assist clients in the building of their corporate structure on solid and sustainable grounds in China
  - Assist with set up and management of accounting systems and control procedures;
  - Establishment of proper sets of accounts in compliance with the PRC tax laws and GAAP;
  - Preparation of periodic management accounts and tailor-made reporting sheets/reports;
  - Budget reporting, cash-flow preparation and forecasts;
  - Preparation of periodic reconciliation reports, financial statements and filing of mandatory tax returns during each period;
  - Audit preparation and assistance;

- HR Advisory & Payroll Services
  - Advise on strategy, design, delivery and ongoing management of HR systems/processes including, HR policy, staff handbook, recruitment policy, and remuneration & benefit plans;
  - Employment contracts for local/expatriate staff;
  - Application and processing of work visas & residence permits for expatriate staff;
  - Set-up of HR & payroll processes and governance measures in compliance with PRC labour laws, and the ongoing maintenance of such processes and systems;
  - Keeping clients informed of any impending changes to legislation and labour regulations, and helping clients seek a better understanding of such changes to implement effective adaptive measures.

### Contact

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