

About Vistra China

Introduction

Since opening its doors to international investors in 1978, China has evolved to be one of the world's most sought after destinations for commerce and investment. China's burgeoning economy and relatively low cost for adopting skilled manufacturing represents seemingly limitless opportunity for many foreign financiers. Indeed, China has developed at unprecedented rates in terms of its regulatory environment, infrastructure, domestic demand for goods and services, and quality control. However, such rapid development has led to numerous challenges in terms of seeking out a suitable location for its business, the type of company structure to adopt, complying with tax regulations and distinguishing the most effective manner of repatriating after-tax profits to a parent company.

Common Types of PRC Entities

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 common structures available to foreign investors include:

- Representative Offices (ROs)
- Joint Ventures (JVs)
- Wholly Foreign Owned Enterprises (WFOEs)
- Branches & Subsidiaries

Each entity is unique and has differing documentary requirements, incorporation protocols, and capitalisation guidelines. Likewise, each has different advantages and disadvantages and how these factors affect commercial operations. In many parts of China and in many Chinese cities, such requirements may differ from location to location depending on municipal, provincial and local interpretations.

Using Intermediate Holding Companies

It is common practice today to employ the use of intermediate holding companies to structure foreign direct investments into China. Such companies can be interposed between the overseas headquarters and the Chinese operating entity to provide a host of benefits including:

- Mitigation of Risks
- Flexibility
- Regional Revenue
- Tax

Tax System

China's domestic tax system has seen various changes over 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 (city/county) level dependent upon the nature of the tax being collected. Typically, taxes applied 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 withholding tax at a rate of 20% unless otherwise determined under a Double Taxation Agreement. Dividend income paid by a company in China is subject to a varying rate of withholding tax (depending on jurisdiction) when such dividends are repatriated to the overseas parent company.
- **Value-Added Tax for Goods & Services**
VAT is applied to all goods and particular type of services in China at a variable scale of between 0%-17%. VAT taxpayers are divided into categories of 'general taxpayers' and 'small-scale taxpayers' according to the scale of business operations and the degree of sophistication of its accounting systems.

Services

In the case of exported goods, a VAT rebate of between 3%-17% can be applied for by the exporter, depending on respective product classifications for exports issued by the State Administration for Taxation.

- **Consumption Tax**

Consumption Tax is collected at rates between 1%-56% on all enterprises, household businesses and individuals engaged in the production or importation of luxury consumer goods into/within China. Exports are exempt from this tax.

- **Individual Income Tax**

- Any individual having residence in China or having residence 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 derived from domestic sources inside China.
- Individual Income Tax is collected on a progressive scale ranging between 3%-45%.

For a better understanding of the varying tax categories, taxpayer classifications (descriptions) and respective taxation rates applicable please refer to our separate appendix for a summary of taxes in China.

Contact

Vistra is physically present in the commercially vibrant cities of Beijing, Guangzhou, Shanghai and Shenzhen where teams of experienced professionals deliver a full corporate program to clients seeking assistance and bespoke advice on the Chinese market.

Services provided include:

- General Business Advisory
- Corporate Services & Company Formation
- Company Secretarial Services
- Tax Services & Consultancy
- Financial Control & Accounting Services
- HR Advisory, Payroll & Outsourcing Services

For a better understanding of the services extended by our China offices, please refer to our product sheet 'Vistra China Services'.

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