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Quick Guidelines for Business in China

June 2019

LEGAL AND INCORPORATION

1. TYPES OF COMPANY

TYPES OF INVESTOR

- Sino-Foreign Activity with cooperation among companies;
- Sino-Foreign Company named Joint Venture Company;
- Whole foreign owned enterprises (WOFE) Limited Company
100% foreign shareholders
- Representative office (dependence)

CORPORATE FORM

- It must be a limited liability company
- Other forms of liability subject to approval

2. TYPES OF ACTIVITIES ALLOWED

ENCOURAGED (SUBJECTED TO RESTRICTIONS)

- Public utilities
- Communications
- Transportations
- Real estate activities
- Investment funds
- Leasing (recently possible with a maximum allowed percentage into the share capital from foreign companies)

NOT ALLOWED/PROHIBITED

- Press, publishing house
- Broadcast, television, cinema
- Postal service and telecommunications

Some other activities can be included in what is called Negative List.

3. INCORPORATION/ESTABLISHMENT PROCEDURE

- Preparation of documents
- The demand
- Authorization usually takes 1.5 - 2.5 months if there are no special concessions such as import/export licenses, export quotas

4. COMPANY EQUITY

- Sized according to the activity
- Can be contributed during the all life duration of the company
- It cannot be reduced throughout the duration of the activity **except granted by authorities;**
- Increase or adjustments of equity are subject to approval
- Mortgage or **hock** its own goods, rights or affairs of a foreign company are subject to approval and examination

GENERAL INCORPORATION PROCEDURES

- Demand for establishment of the new company
- Preparation of documents; Articles of Association, Feasibility Study, Contracts
- Examination and approval, issue of approval certificate
- Recording in the Office of Trade and Industry and release of the Business License
- Stamps
- Demand for the registration number of the company, recording for the financial statistics
- Opening of a banking current account
- Recording in the Office of the Taxes
- Recording import and export Custom

MANAGEMENT AND BUSINESS

1) BANKING SYSTEM

- **PBoC** (People's Bank of China)
- **SAFE** (State Administration of Foreign Exchange)
- Foreign Banks
- Local Banks

Currency:

The Renminbi (RMB) is not yet fully convertible and PRC imposes control over all types of foreign exchange (FX) transactions across its borders. FX settlement for current account transactions is relatively straightforward and from 2009 the RMB has been increasingly used for cross border trade settlement.

For receiving the Capital Share injection in the company should use a Capital share bank account which is subject to restrictive treatment.



TAX SYSTEM

- *Corporate income tax: rate 25 %*
- *Dividends paid to a non-resident enterprise are subject to withholding tax at 10 % (this rate may be reduced under certain treaties for example UK).*
- *VAT applies at rates of 3% (small enterprise simplified VAT scheme), 6% (many types of service), 11% (construction, real estate and financial services) and 13% (the standard rate applied to most types of goods).*
- *The Small enterprises which fall into simplified VAT Scheme will not be able to recover the VAT input.*
- *Individual Income Tax rate up to 45% maximum rate.*

OTHER TAXES

- *Consumption tax. For imported goods like luxury goods*
- *Stamp duty applies for transfer of assets*

other taxes might apply as Land appreciation taxes, real estate taxes, mining taxes, urban taxes.

ADMINISTRATION AND ACCOUNTING

- Accounting records and annual financial statement are required to be prepared and maintained in accordance with the accounting regulations/standards issued by Ministry of Finance (MOF).

China accounting standards are substantially converged with IFRS Standards. End of the year it is required to provide audited financial statement for the PRC tax authority when conducting the annual CIT filing

- Fiscal year 1/1-31/12
- > 10% funds for the reserve funds for seniority of the employees.
Withholding tax on profits
- No distribution of profits in case of losses not covered of the preceding years
- Regular presentation of the balance sheets to the fiscal authorities
- Regular bookkeeping for the controls from the fiscal administration.
- Losses can be carried forward for 5 years. No carry-back is allowed.

LABOR COSTS

It is composed as following:

- Gross salary
- Net salary
- Social Security litigations & lodging funds
- Employers and Employees must both make contributions to Social security insurance (SSI). Rates of both employer and employee contributions can vary depending on the fund category and location of the employee in the PRC.
- Employer contributions to SSI apply to the pension, medical, unemployment, maternity, and injury funds.
- Employee contributions to SSI apply to the pension, medical, and unemployment funds.
- IIT maximum rate 45% (on 80,000CNY per month) the calculation is per month.

Other benefits according to individual agreement

KELMER SERVICES

1. LEGAL, RESEARCH AND SETTING UP OF ENTERPRISES

- Preliminary studies to understand environmental legal requirements and specific requirements and laws
- Due diligence
- Research and monitoring of suppliers and contractors
- Negotiation, follow-up assistance
- Business establishment/modification procedures

2. FINANCE, ACCOUNTING & REGISTRATION, TAXES

- Treasury
- Banking account management
- Accounting and accounting registrations
- Assistance in reconciliation and consolidations of accounts
- Financial analysis
- Reporting
- Management of tenders and suppliers
- Tax returns
- Tax advice
- Assistance in searching for tax questions

3. HUMAN RESOURCES

- Research and hiring
- Payroll management
- Management of the internal manual for employees
- Management of staff archives and social security archives
- Assistance in terminations

4. AUDIT, EVALUATIONS AND ACQUISITIONS

- Management of audits and evaluations
- Annual audit
- Implementation of control systems and their evaluation
- Evaluation and surveys

- Acquisitions
- programming
- execution



OVERVIEW OF THE CHINESE TAX SYSTEM

DESCRIPTION	BASE OF CALCULATION	APPL. RATE %	TAX CLAIM
CORPORATE INCOME TAX	Net Profit	25%	Quarterly
INDIVIDUAL INCOME TAX	Gross Salary	3 – 45 % according to the salary	Monthly
VAT ON GOODS	Added Value	13%	For each import Monthly
VAT ON SERVICES	Service Turnover	6%	Monthly
CONSUMPTION TAX	Only on certain category of products according relevant law like for luxury goods, tobacco, alcohol	1 – 56% according the product	Monthly
STAMP DUTY	Contract Value	0.03% - 0.1% according the category of the contract	Per case
DIVIDEND PAID TO FOREIGN SHAREHOLDERS	Dividend distributed, maxim is 90% of annual profit Dividend received	10%	

DESCRIPTION	BASE OF CALCULATION	APPL. RATE %	APPL. TAX
DIVIDEND PAYMENT FOR FOREIGN	NET PROFIT AFTER 10% Provision until reach the 50% of the capital share	10%	Withholding tax
PAYMENT OF ROYALTIES	ON ROYALTIES AMOUNT	10%	Corporate Income Tax – Withholding Tax
PAYMENT OF ROYALTIES	ON ROYALTIES AMOUNT	6%	VAT- Corporate Income Tax