

**How to start up a business in China**

**(Update: 29. October 2009)**

## Index

<b>1</b>	<b>The Peoples Republic of China</b>	<b>page</b>
<b>1.1</b>	<b>Business Environment</b>	<b>4</b>
<b>1.2</b>	<b>Figures</b>	<b>4</b>
<b>1.3</b>	<b>Prospect</b>	<b>5</b>
<b>1.4</b>	<b>Commercial policy</b>	<b>5</b>
<b>1.5</b>	<b>Location/ Development zones</b>	<b>5</b>
<b>1.6</b>	<b>Investment and Trade</b>	<b>6</b>
<b>2</b>	<b>Legal basis</b>	<b>6</b>
<b>2.1</b>	<b>Types of enterprises</b>	<b>6</b>
2.1.1	Main Foreign investment Enterprises	6
2.1.2	Equity joint ventures	6
2.1.3	Cooperative joint ventures	7
2.1.4	Wholly foreign-owned enterprise	7
2.1.5	Chinese holding companies	7
2.1.6	Foreign enterprises with or without establishment in China	8
2.1.7	Representative office	9
2.1.8	Branch offices	9
2.1.9	Domestic offices	9
<b>2.2</b>	<b>Bookkeeping and audit</b>	<b>10</b>
2.2.1	Annual audit	10
<b>2.3</b>	<b>Taxation</b>	<b>11</b>
2.3.1	History	11
2.3.2	Tax authorities	11
2.3.3	Types of tax law	12
2.3.4	Types of Taxes	12
2.3.5	Overview tax rates	13
2.3.6	Taxpayer	14
2.3.7	Tax catalogue	15
2.3.8	Tax registration and declaration	15
2.3.9	Taxes on Turnover	16
2.3.10	Enterprise Income tax	20
2.3.11	Individual Income tax	22
2.3.12	Transfer Pricing	23
<b>2.4</b>	<b>Labor Law</b>	<b>24</b>

<b>3.</b>	<b>Doing Business in China</b>	<b>25</b>
<b>3.1</b>	<b>Choices of market entrance</b>	<b>25</b>
3.1.1	Forms of investment	25
3.1.2	Pro's and Con's WFOE versus JV	26
3.1.3	Legal entities	26
3.1.4	Capital	27
<b>4.</b>	<b>Concluding remarks</b>	<b>28</b>
<b>5.</b>	<b>Useful Chinese links in the internet</b>	<b>29</b>
<b>6.</b>	<b>Support by your Ecovis-Advisor</b>	<b>30</b>

# 1. The Peoples Republic of China

## 1.1 Business Environment

With the largest population and fastest-growing economy in the world, China is a country that is worth to be closely watched.

Now a part of the WTO, changes are happens even faster in China.

Sectors are opening up overnight, laws are being changed and more and more opportunities are presenting themselves to foreign investors.

## 1.2 Figures

- According to the nominal GDP (2008) after the USA and Japan – China is the 3. biggest national economy in the world (Germany No. 4)
- Purchasing power – No. 2, after USA
- GDP 2008: > 3000 USD per head tripled (2002 940 USD)

<b>General information</b>	
Name of the country	Peoples Republic of China (PRC)
Capital City	Beijing
<b>Population</b>	
Population	1,33 billions (2008)
Expanse	9,6 million sq km
Allocation of population	41 % city, 59 % countryside (2005)
Shanghai	18,4 million (2007)
Beijing	15,5 million (2007)
Tientsin	10,5 million (2007)
Wuhan	8,9 million (2007)
Chongqing	7,7 million (2007)

### **1.3 Prospect**

- Apart from decrease of economical growth the overall economical situation is still positive and in compare with other nations – the growths is above average, the country has high foreign economic currency reserves
- Still high attractivity for foreign investors
- But, high environmental burden, unemployment, salary differentials, protection-ism

### **1.4 Commercial policy**

- Stimulation of
  - small-and medium sized companies
  - environmental protection
  - Effective usage of energy
- Annual growths about 8%
- More Focus on rural areas

### **1.5 Location/ Development zones**

- Stimulation of former politics: east of China more developed than the west of China (85 % of foreign investments, 90 % exports)
- New "Go West politics": development of infrastructure, tax and investment stimulation in the west of China
- Firstly consideration of infrastructure, supplier and clients, environmental pollution, quality of living and professional staff (big differences in China!)
- Tax or investment stimulations should be considered as second step (e.g. high tech, environment, energy, infrastructure)
- Development zones are common in China

## **1.6 Investment and Trade**

- China continues to be an important location for European investments
- The interest of Chinese companies to invest in Europe increases (stimulation of the government)
- Still some IPO of Chinese enterprises, e.g. in Germany
- China is since 2004 the most important trade partner in Asia

## **2. Legal Basics**

### **2.1 Types of enterprises foreign investors**

#### **2.1.1 Main Foreign Investment Enterprises:**

- Equity joint ventures
- Cooperative joint ventures
- Wholly foreign-owned enterprises

#### **2.1.2 Equity joint ventures**

A Chinese-foreign equity joint venture is a JV structured in the form of a Chinese limited liability company to which a Chinese enterprise and a foreign party each contributes its shares of capital.

- Law on Sino-Foreign Equity Joint Ventures
- Legislation one of the most comprehensive and extensive pieces of legislation relating foreign investment in China
- Advantageous to work with a Chinese partner who is familiar with the local market and have well established network with Chinese business and government authorities
- Parties jointly invest and manage the JV
- Parties share profits and risks and losses according their contributions to the registered capital
- Enterprise income tax law applicable

### **2.1.3 Cooperative joint ventures**

- A Chinese-foreign cooperative joint venture provides a flexible structure for foreign investors.
- Could be run as a legal entity, which is a limited liability company or as an unincorporated business (corporation or partnership)
- Rules are less stringent
- Terms of the contract are negotiable, e.g. profit distribution
- Enterprise income tax law applicable

### **2.1.4 Wholly foreign-owned enterprise**

- A wholly foreign-owned enterprise is a Chinese limited company, wholly owned by one or more foreign investors and established entirely with foreign capital.
- Encourages from the Chinese Government for high and new technology and equipment, development of new products as well as energy preservation
- Certain industries could be restricted or prohibited
- Popular business structure
- Cost and time saving due to not having a negotiation process with a Chinese partner
- IPR, trade secrets, technologies could be saved
- More flexible and streamlined management systems
- Limited liability company
- Enterprise income tax law applicable

### **2.1.5 Chinese holding companies**

- Chinese holding companies are foreign investment holding companies in China. These may take the form of WOFE or JV.
- Not engage in production operations themselves
- Hold interests in other foreign investment enterprises and provides certain services
- Umbrella structure arrangement, which enables a foreign company to hold together its foreign investment enterprise investments in China
- To set up a holding company, foreign investors shall satisfy at least some requirements (e.g. for registered capital, subsidiaries in China)
- As a holding the scope of activities has several restrictions

- Taxation: no difference to other foreign invested enterprises; dividends received by holding companies from their invested enterprise are generally exempt from enterprise income tax at the holding company level

### **2.1.6 Foreign enterprises with or without establishment in China**

- Foreign enterprise incorporated outside China/ establishment:
  - non-resident enterprise with establishment in China
  - production or business operations
  - subject to tax to the extent for income connected with its establishment in PRC
- Foreign enterprise incorporated outside China/ no establishment:
  - non-resident enterprise with no establishment in China
  - no production or business operations
  - subject to withholding tax on income which is derived from China

#### **Definition "establishment"**

i.e., double taxation treaty between German and China:

- a place of management, operation or administration
- a farm, factory or place of extraction of natural resources
- a place where services are rendered
- a place of construction, installation, assembly, repair and exploitation etc.
- other establishments engaged in manufacturing and business operating activities

#### **Definition "permanent establishment"**

- a place of management, a branch, an office, a factory, a workshop
- a mine, an oil or gas well etc.
- a building site, construction, assembly or installation project > 6 months
- rendering of services, including consultancy services > 6 months within any 12 months period

### **2.1.7 Representative office**

#### **General**

- Important structure to be present on the Chinese market
- Cannot operate as businesses in terms of manufacturing or production, or engaging on sales and marketing
- allowed to conduct other activities such as customer liaison and market research, or to provide certain services

#### **Taxation**

- Deemed as permanent establishment
- Application for tax levying method (5 different kind of taxation methods applicable)
- Different kind of regulations for Individual Income tax, employment regulations

### **2.1.8 Branch offices**

- Foreign companies are generally not allowed to set up branch office in China
- An exception foreign banks or insurance companies

### **2.1.9 Domestic enterprises**

- Established within the territory of the PRC
  - State-owned enterprises
  - Collectively-owned enterprises
  - Private enterprises
  - Cooperative enterprises
  - Share-formulated enterprises

## **2.2 Bookkeeping and Audit**

### **2.2.1 Annual audit**

#### **a) Annual auditing on financial statements**

Foreign invested enterprises in China are required to prepare the annual financial statements per year in accordance with commercial laws. The accounts need to be recorded / prepared according to the Chinese accounting standards for business enterprises. These statements are the basis for calculating the taxable and distributable profit as well as major documents of the annual combinative audition.

Under Chinese law the financial statements have to be audited by Certified Public Accountants firm which is registered in the PRC.

Furthermore an international audit report could be issued up to the requirements of the headquarters (HQ) according to the HQ's applicable accounting standards, such as, IFRS, US-GAAP or HGB.

#### **b) Foreign currency inspection report**

In addition the foreign currency inspection has to be performed per December 31, 2009. This report is necessary for the company to undergo the annual inspection of the State Administration of Foreign Exchange (SAFE) as required by relevant regulations of the foreign exchange in the PRC.

#### **c) Annual tax clearance and annual combinative examination**

According to the requirements of the authorities, each foreign invested company shall participate the annual tax clearance, and a combinative audition from various authorities. Therefore 7 sets of documentation need to be prepared by the company, one for each authority as follows:

##### **Annual EIT clearance**

It means the preparation on the relevant tax returns of the Enterprise Income Taxes ("EIT") compliance for the competent tax authorities within the first 5 months of next year.

1. State/ Local Administration of Taxation (SAT)

##### **Annual Combinative Audition**

This needs the preparation of the relevant documents / forms for other authorities within 6 months of next year:

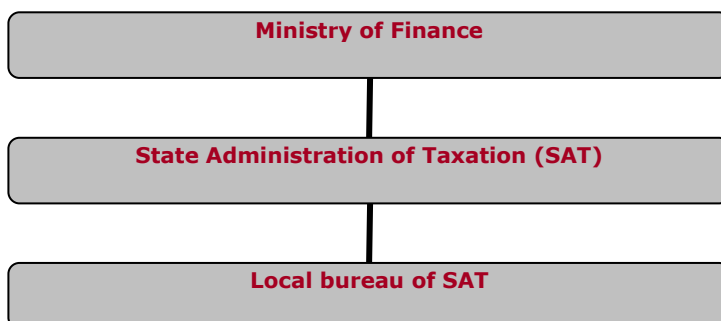
2. Ministry of Commerce (MOFCOM)
3. Administration of Industry and Commerce (AIC)
4. Financial Bureau
5. State Administration of Foreign Exchange (SAFE)
6. China Customs
7. Statistics Bureau

## 2.3 Taxation

### 2.3.1 History

- China's current tax system is relatively new, having been developed only since the 1980's. Prior to that, China's tax system was concerned primarily with the taxation of domestic enterprises.
- With the introduction of the "open door" economic policies, the tax system was reformed and developed in order to levy taxes on foreigners, foreign enterprises and foreign investment enterprises. To attract foreigners and foreign companies to make investments in China, China issued a separate income tax law in 1991, which provided tax incentives and various favourable tax treatments.
- Due to unfair competition over the last years, the current new Enterprise Income Tax Law (EITL) come into effect on 1 January 2008. Foreign enterprises and domestic enterprises are be taxed finally under the same tax scheme.

### 2.3.2 Tax authorities

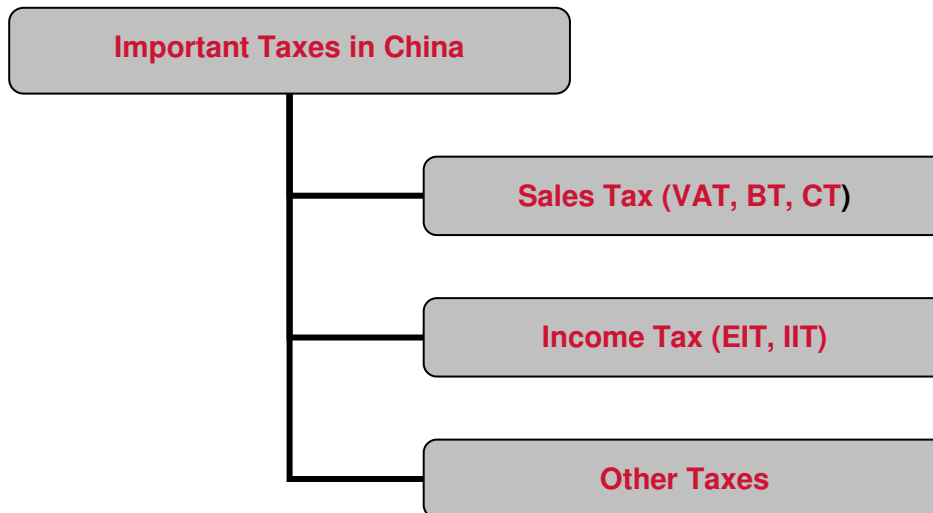


- The SAT and MOF are empowered to interpret the country's tax laws and regulations by the issuance of circulars.
- Responsible for tax policy and administration lies with the SAT.
- The SAT is responsible for formulating and coordinating tax policies and for supervising the work of local tax bureaus which are established as provincial and municipal levels.
- The MOF also continues to play a key role in developing tax legislation and policy.

### 2.3.3 Types of tax law

- Basic law
- Amendments
- Local regulations and rules

### 2.3.4 Types of taxes



VAT: Value-added tax

BT: Business tax

CT: Consumption tax

EIT: Enterprise income tax

IIT: Individual income tax

### 2.3.5 Overview tax rates

Important taxes	Tax rate
<p><b>Individual income tax</b></p> <ul style="list-style-type: none"> <li>- Income on wages and salaries</li> <li>- Production and business income</li> <li>- Contracting and leasing income</li> <li>- Freelancer</li> </ul>	<p>5% - 45%</p> <p>5% - 35%</p> <p>5% - 35%</p> <p>20% - 40%</p>
<p><b>Enterprise income tax</b></p> <ul style="list-style-type: none"> <li>- Income of resident enterprises</li> <li>- Lower tax rate (e.g. High Technology Enterprises)</li> <li>- China-sources income of foreign enterprises without establishment in China</li> <li>- Income of foreign enterprises with establishment in China, income not connected with the establishment</li> </ul>	<p>25%</p> <p>15%</p> <p>10 % (withholding tax)</p> <p>10 % (withholding tax)</p>
<p><b>Turnover tax</b></p> <p><u>VAT</u></p> <p>Sales of goods, processing..., import</p> <p>General VAT taxpayer</p> <p>Small tax payer</p> <p>Export goods</p> <p><u>BT</u></p> <p>Services (transportation, finance, telecomm. etc., depending on the scope)</p> <p>entertainment</p>	<p>17 % (basic rate), 13 % (reduced rate)</p> <p>3%</p> <p>0%</p> <p>3 % or 5 %</p> <p>5 to 20 %</p>
<p><b>Consumption tax</b></p> <p>"luxury goods" (tobacco, wines, cosmetics etc.; depends on the good)</p>	<p>3% - 45%</p>
<p><b>Trade tax</b></p>	<p>Not exists</p>

## **2.3.6 Taxpayer**

### **Foreign Invested Enterprises (FIE)**

- Foreign equity joint ventures
- Foreign cooperative joint ventures
- Wholly owned foreign enterprises

### **Foreign Enterprises (FE)**

- Permanent establishment  
(e.g. Representative Office)
- China sourced income  
(e.g. interest, rent, royalties etc.)

### **Foreign Individuals, mainly including:**

- Foreign private investors
  - (e.g. shareholder of FIE)
- Foreign expatriates, working in China
  - (e.g. employees of FIE)
- Foreign independent freelancer
  - (e.g. independent engineer)

## 2.3.7 Tax Catalogue

### Taxes on turnover

- Value added tax (VAT)
- Business tax (BT)
- Consumption tax (CT)
- Customs duty on exports/ imports

### Taxes on income

- Enterprise income tax (EIT) → adapted for FIE, FE
- Individual income tax (IIT) → adapted for foreign individuals

### Taxes on property and transactions

- Urban real estate tax
- Vehicle and vessel usage tax
- Stamp tax
- Land value-added tax
- Contractual tax (deed tax)

### Taxes / Dues on natural resources

- Resources tax
- Land usage due

## 2.3.8 Tax registration and declaration

### **Tax registration procedure**

- Registration within 30 days since establishment;
- Opening registration, official invoice's registration, tax bank account opening of tax payment etc.;
- application of qualification of "General VAT tax-payer" (important procedure)

Note: a Rep.-Office shall apply the tax-levying method

### **Periodic tax declaration procedure**

- monthly: VAT, BT, IIT, etc.;
- quarterly: pre-application of EIT;
- other taxes (e.g., land appreciation taxes, etc.) are due in second month after transaction

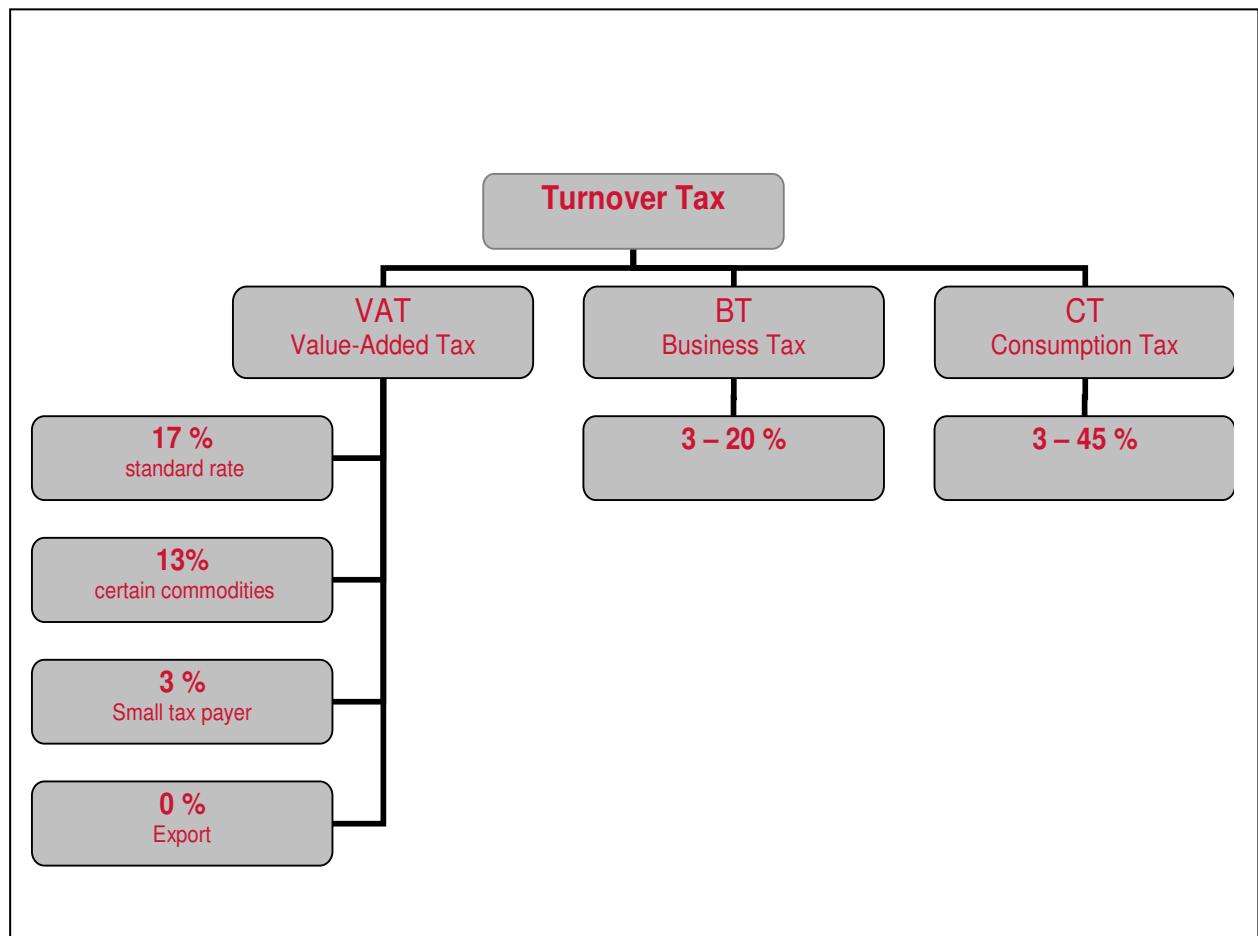
## Annual tax declaration/ clearance

- EIT: within first 5 months with audited statutory financial statement;
- Verification of VAT tax-payer
- annual combinative inspection (AIC, SAFE, Customs house, etc.)
  
- Applications of changes on FIEs / Rep.-Office:
  - e.g., Registered capital, re-location, etc.
  - De-registration
  
- Interest rate on delaying declaration: 0.05% per day

AIC: Administration of Industry and Commerce

SAFE: State Administration of Foreign Exchange

### 2.3.9 Taxes on Turnover



## **a) Value-added tax**

### **Scope**

- Sales of goods  
(Excluding transfer of intangible assets and real estate)
- Service of processing, repair and replacement  
(Other services may subject to business tax)
- Import of goods into China

### **Rate**

- 17 %      standard rate
- 13%      for certain commodities  
(Such as grains, cooking oil, running water etc.)
- 3 %      small-scale tax-payer enterprises

### **Classification of VAT taxpayers**

#### → Small scale VAT taxpayers

- annual sales less than
  - 500 TRMB for industrial enterprises
  - 800 TRMB for retail/ trading enterprises
- Tax payable = Sales turnover \* VAT rate 3%

#### → General VAT taxpayers

- annual sales above
  - 500 TRMB for industrial enterprises
  - 800 TRMB for retail/ trading enterprises
- Tax payable = output VAT – input VAT
- Temporary qualification

## **Restricted VAT invoices systems**

### Input VAT

- VAT amount for purchasing commodities or receiving taxable services
- Input tax = Purchasing price \* VAT rate
- Especially in China:
  - Subject to "special VAT invoices" received from suppliers/ on import
  - Input VAT of purchasing fixed asset is deductible from output VAT (Beginning 01.01.2009)

### Output VAT

- Output tax = Sales turnover \* VAT rate
- Tax rate: 17% for most commodities, 13% for special commodities

## **Export VAT refund**

- 0% tax rate on output VAT
- Input VAT credit
  - based on refund rates
  - on materials purchased for the production of export goods is offset against the output VAT on domestic sales
- Refund rates
  - rang from 5% to 17% for different commodities,

Note: Registration and application for export tax refund

## **Trend of VAT policy reform**

- "consumption-based VAT Transformation"

## **b) Business Tax**

### **Scope**

- Taxable services of  
Transportation, construction, finance, telecommunication, culture, entertainment, other services, etc.
- Transfer of intangible assets
- Sales of immovable property (real estate properties)
- Whom provide labor services in areas that are not subject to VAT

### **Calculation**

- Business tax = sales turnover \* tax rate
- Tax rate of entertainment is 5 - 20%, others are 3% or 5%
- Business tax is included in prices

### **Declaration**

- monthly

*Note: purchase business tax is NOT deductible from sale business tax or sale VAT*

### **Changes**

- Start 1 January 2009
- Change of definition "provision of labor services within China"
- Former regulation:
  - Labor service are rendered within China, service subject to BT
- New regulation:
  - Service-provider or service recipient is located in China, the service income shall be taxable for BT purpose in China, regardless the services being rendered onshore or offshore China

## **c) Consumption Tax**

### **Subject to consumption taxes**

- production, procession and import of luxury consumer goods: tobacco, alcoholic drinks or alcohol, cosmetics, skin or hair care products, jewelry, fireworks, gasoline, diesel, automobile types, motorcycles and motorcars etc..

### **CT is calculated**

- according to quantity
  - e.g. the tax rate for gasoline is RMB 0.2 per liter;
- according to the price of the commodity
  - e.g. the tax rate for cigars is 40%.
- Products are applicable to VAT, including levied excise tax
- Tax rates range from 3% - 45% for different types of products
- Consumption tax wholly refunded, after export

## **2.3.10 Enterprise Income Tax**

### **Rate**

#### **Standard rate**

- Enterprise income tax rate: 25%
- High and New Technology Enterprises: 15 %

#### **Withholding tax rate**

- Current status is a reduced rate
- check double taxation treaty of each country
- e.g. Germany 10%

## **Revision of the enterprise income tax**

- Take effect 1 January 2008
- Impact on foreign investing companies

## **Previous regulations**

- Two separate enterprise income tax laws, one for Chinese companies and the other one for foreign invested enterprises (FIE)
- Tax rate 33 %
- A lot of tax holidays for FIE, not for Chinese companies (tax burden between 15-24 %)
- Dividends from FIE from China to the investing foreign companies not taxable for dividend withholding tax

## **Consequences**

- Lost tax holidays for FIE
- International "normal" tax rate of 25 %
- China developed from a low-tax-country to a "normal-tax-country" for investments

## **Solutions**

- Use New Tax advantages
  - High Technology
  - Environment friendly projects etc.

### 2.3.11 Individual Income Tax

#### Rate of wages / salaries

Item	Income range	Tax rate	Quick tax-deduction
1	Less than 500	5%	-
2	501 – 2,000	10%	25.00
3	2,001 – 5,000	15%	125.00
4	5,001 – 20,000	20%	375.00
5	20,001 – 40,000	25%	1,375.00
6	40,001 – 60,000	30%	3,375.00
7	60,001 – 80,000	35%	6,375.00
8	80,001 – 100,000	40%	10,375.00
9	More than 100,000	45%	15,375.00

Note: Foreigner - monthly income deduction of 4,800 RMB

#### Regulations for Foreigner

- Famous rule of "183 days"
- Important deductible items for foreigners
  - Housing subsidies,
  - Relocation expenses
  - Traveling allowances with reasonable standard;
  - Home-visiting expenses (2 times/year)
  - Language training
  - Children's education

Note: reasonable standard expenditures, official invoice important

### **Other taxable incomes (freelancer e.g.)**

- income derived in the territory of China,
- such design, decoration, installation, law, accounting, consultancy, lecturing, etc.
  
- income is under RMB 4,000: taxable income after deducting RMB 800
- income is over RMB 4,000: taxable income after deducting 20%,
- use table below:

Income Taxable	Tax Rate
RMB 20,000 & less	20%
RMB 20,001 – RMB 50,000	30%
More than RMB 50,000	40%

### **2.3.12 Transfer Pricing**

- Arms lengths' principle (e.g. market price)
- Annual declaration for affiliated transactions  
(e.g. mother and subsidiary company)
- APA advanced pricing agreement
- The tax authorities focuses more and more on the topic transfer pricing

## **2.4 Labor legislation**

China's labor law of 1994 provided a basic framework for employer and employee relationships. However the experience has shown that these rules are poorly enforced, particularly in rural areas.

### **New labor law**

On June 29, 2007 the Labor Contract Law of the PRC was adopted and came to effect January 1, 2008. The aim of the new law is to improve the employment relationship, clarify rights and obligations of employees and employers. Some regulations will be described as follows.

### **Employer's liabilities**

Employers are liable for damages caused by invalid contracts, lack of mandatory minimum content in labor contracts, violating laws by company rules or failure to issue termination certificates.

### **Written forms**

The contract has to be in written form. A written contract must be signed by both parties to establish the employment relationship. If the employer fails to enter into a written contract with an employee for more than one month but less than 12 months, the employer shall pay the employee twice the salary for every month without a written contract. If there is no written contract for more than 12 months the contract is seen to be an open-ended contract.

### **Probation period**

The parties can agree on only one probation period that cannot be extended. The law requires employers to pay their employees at least 80 percent of their contractual salaries. The maximum probation period is based on the term of the contract. In the case the employer fails to comply with the statutory probation periods, the compensation following the salary standard applicable to the employee after the probation period has to be paid.

### **Payment of wages**

An employer is obliged to pay the salary, in accordance with the national regulations of the employment contract, on time and in full.

### **Staffing agencies**

The new law affects representative offices which use the service of the FESCO or other HR agencies. A company using staffing agencies services will have to pay overtime and performance based bonuses and benefits, and apply the same pay standard and pay increase mechanism for all employees. The agent and the company are both jointly and severally liable for each breach of contract.

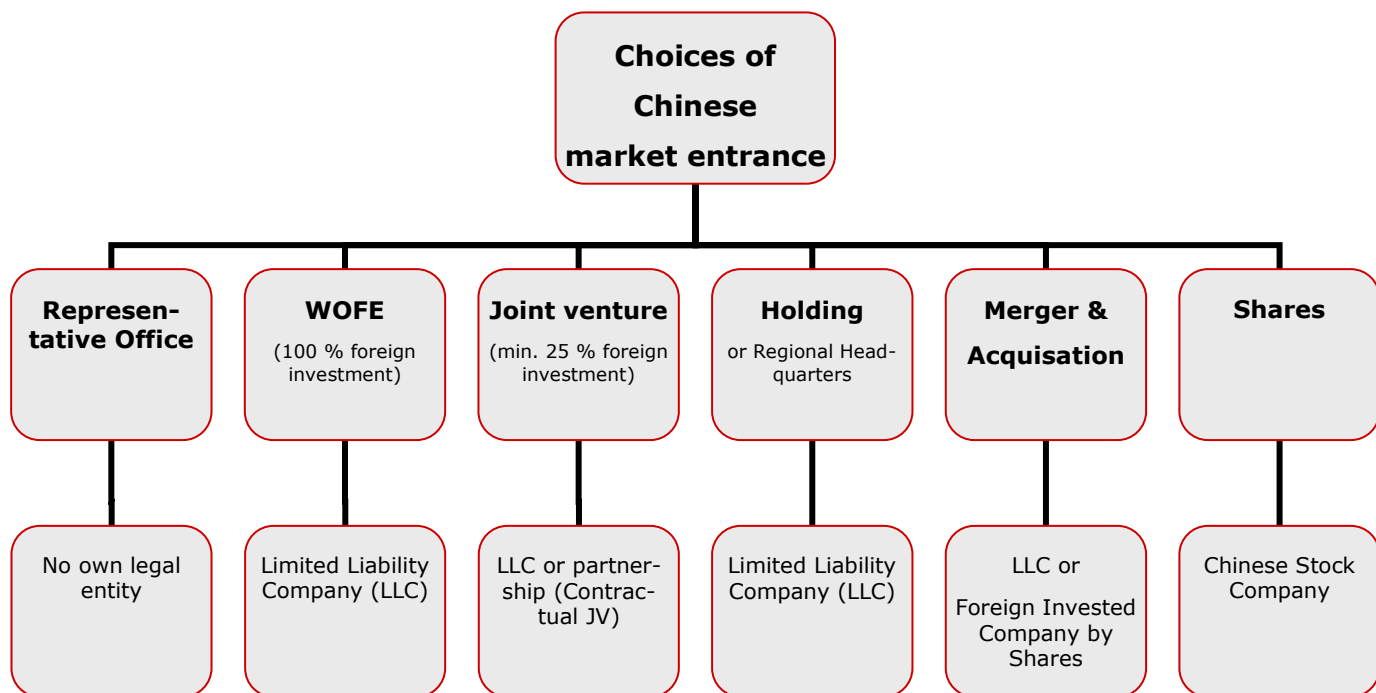
### 3. "Doing Business" in China

#### 3.1 Choice of market entrance

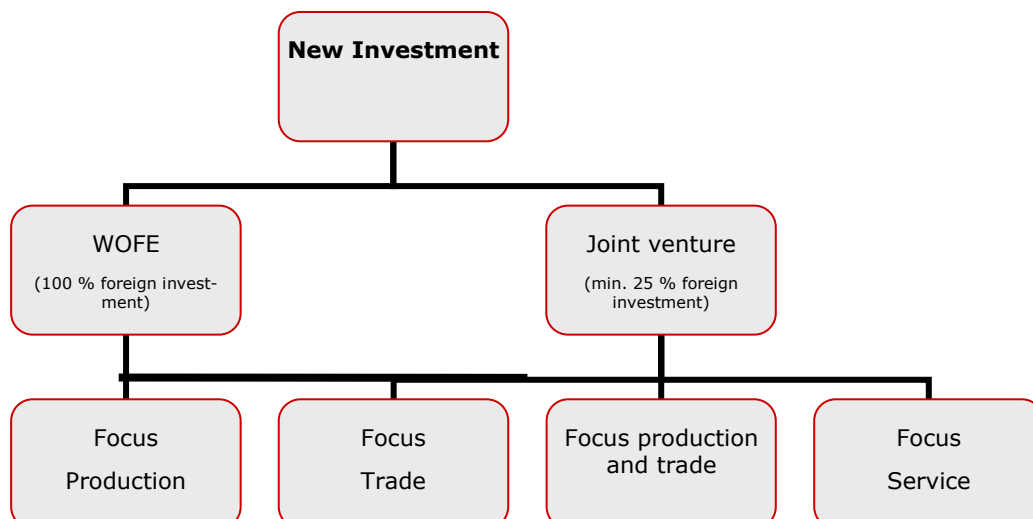
##### 3.1.1 Forms of Investment

The overview below shows the most important forms of investment in China. The choice of the legal form are decides as a following step.

Joint ventures were the only choices in the past to invest in the Chinese market. Now Wholly Foreign Owned Enterprises with 100 % foreign capital contribution are become more popular.



For the company set up is also important to decide in advance which kind of business scope the company will have. This decision will have influence for the registration and obtaining the business license.



### 3.1.2 Pro's and Con's WFOE versus JV

WFOE		JV	
Pro's	Con's	Pro's	Con's
Fast decision making processes	Capital contribution only from one party	Capital contribution from 2 parties	Time and cost spending because of more effort and longer decision making process
Protected technologies and know how	Limited knowledge of the Chinese market	Share of the costs and the risk	Technology and know how piracy risk
Independency	Built up relationships with Chinese business contacts and government – long-term process	Use relationships of Chinese JV partner and his business and government contacts	Dependency
No culture differences			Culture differences

### 3.1.3 Legal entities

The Chinese law distinguishes between **cooperation** and **partnership**.

The shareholders of the partnership are having full liability.

In China are 2 kind of cooperation: Limited Liability Company (LLC) and Company limited by Shares (CLS).

The LLC is the typical legal form for Equity Joint Ventures and WFOE (like the German GmbH) . The CLS is a stock company (like the German AG).

The Chinese commercial law has the concept that the shareholder are not personally liable, the entity is the legal subject for the business activities and liable according the registered capital.

### 3.1.4 Capital

#### Minimum capital

LLC: 30,000 RMB  
One-Man-LLC: 100,000 RMB

According to the requirements of the local authority a higher amount could be due, e.g. recommended for the status of General VAT-Taxpayer, 500,000 RMB in Shanghai)

CLS: 5 Mio RMB  
CLS with Foreign investment: 30 Mio RMB

#### Balance of total investment and registered capital

There are minimum levels to setting up a company. However it should be considered to ensure that the registered capital is sufficient for the cash flow during the start-up period. Additionally should be paid attention to the relationship between the total investment and the registered capital. It should be planned to balance it correctly also regarding the financial gap, the difference between total investment and registered capital. Please find below the requirements:

Total investment capital / registered capital		
Total investment/ Mio USD	% of min. registered capital of total investment	Time limit for registered capital payment
< 3	70 %	Within 2 years after issue of the business license
3 – 10	50 %, not less than 2,1	Within 2 years after issue of the business license
> 10 – 30	40 %, not less than 5.0	Case by case
> 30	33,3 %, not less than 12.0	Case by case
Notes: 1) payment by lump sum fee, payment within 6 months after obtaining the business license 2) installments payments: first installment min. 15 %, within 3 months		

## 4. Concluding remarks

!	There is no ultimate legal form!
!	The most popular investment forms at the moment are: WFOE, Joint Venture, Representative Office
!	Taxes are no decision criterion! The exemption is the Representative Office.
!	The company foundation procedure in China could be not as simple as in other countries.
!	The choice of the investment form is also a choice of working together with Chinese partner → Joint Venture.
!	Don't forget cultural awareness also during the company set up.

## **5. Useful Chinese Links in the internet**

### **China Government Bodies**

- State Administration of Taxation (English & Chinese)  
<http://www.chinatax.gov.cn>
- People's Republic of China General Customs Administration (Chinese)  
<http://www.customs.gov.cn>
- People's Republic of China State Administration of Foreign Exchange SAFE (English & Chinese)  
<http://www.safe.gov.cn>
- Ministry of Commerce MOFCOM (English, German & Chinese)  
<http://www.mofcom.gov.cn>

### **China Chambers of Commerce and Business Councils**

- The German Chamber of Commerce in China (English & Chinese)  
<http://china.ahk.de>
- The European Chamber of Commerce in China (English & Chinese)  
<http://www.euccc.com.cn>

### **China Accounting and Taxation**

- Chinese Institute of Certified Public Accountants (Chinese)  
<http://www.cicpa.org.cn>
- Shanghai Institute of Certified Public Accountants (Chinese)  
<http://www.shcpa.org.cn>

### **China Business Environment**

- Shanghai Taxation Bureau (Chinese)  
<http://www.csj.sh.gov.cn>

## 6. Support by your Ecovis-Advisor

If you have questions left the tax adviser, lawyers and auditors of ECOVIS will like to help you:

- Tax law questions
- Business questions
- Legal questions
- Legal form choice
- Special aid possibilities for entrepreneurs

### Contact persons:

#### **Lun WANG**

Partner

Chinese Certified Public Accountant (CPA)

Chinese Certified Tax Advisor (CTA)

Tel.: +86 (0) 21 / 6105 7333

Fax: +86 (0) 21 / 6105 7330

E-Mail: [lun.wang@ecovis.com](mailto:lun.wang@ecovis.com)

#### **Pingwen HU**

Partner

Chinese Certified Public Accountant (CPA)

Tel.: +86 (0) 21 / 6105 7333

Fax: +86 (0) 21 / 6105 7330

E-Mail: [pingwen.hu@ecovis.com](mailto:pingwen.hu@ecovis.com)

You could also contact the local office at your location. You will find an overview at:

[www.ecovis.com](http://www.ecovis.com)

[www.ecovis.cn](http://www.ecovis.cn)