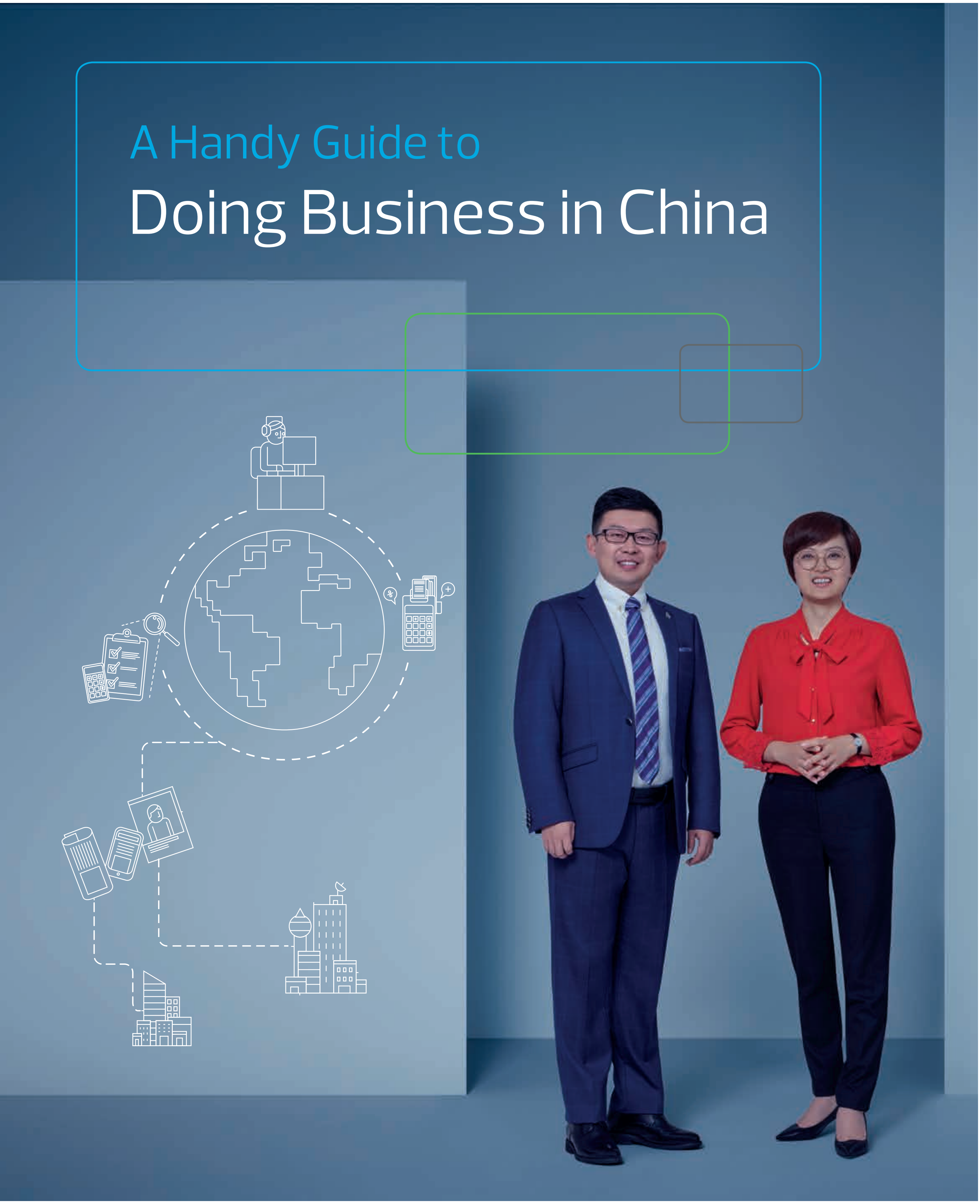
A Handy Guide to Doing Business in China



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We provide assurance, tax, advisory and business solutions.

We focus on growing businesses, helping them to optimise profits, enhance business value and internationalise.

We also support international businesses with their ASEAN set up in matters relating to corporate compliance and governance, payroll, accounting, staffing, and IT infrastructure and solutions.

GENERAL INFORMATION

With a long history of over 5,000 years and a population of more than 1.4 billion people, China is one of the largest countries in the world, covering 9.6 million square kilometres of land area and 4.7 million square kilometres of territorial waters.

China officially recognises 56 distinct ethnic groups, the largest of which are the Han people, who make up about 92% of the total population. Ethnic minorities, e.g. Manchurians, Uighurs, Tibetans and Koreans, make up about 8% of China's population. There are 292 living languages in China, including Mandarin, which is spoken by 70% of the native population, and various dialects such as Shanghainese, Cantonese, and Hokkien.

ECONOMY

China has been the world's largest and most complex economy for the past two thousand years, and has experienced cycles of prosperity and decline during that time. Since the introduction of economic reforms in 1978[2], China has become one of the fastest growing major economies in the world. In 2001, China formally joined the World Trade Organisation. Currently the world's second largest economy, China's gross domestic product (GDP) reached USD 18 trillion in 2022, increasing by 3% year-on-year. At the same time, China has successfully maintained a low inflation rate. The country is also the world's largest exporter and second largest importer of goods.

Like many other Asian countries, China has seen its foreign reserves exceed their optimal level in recent years. According to China's State Administration of Foreign Exchange, the country's foreign reserves reached USD 3.18 trillion at the end of March 2023, surpassing Japan as the country with the highest foreign reserves in the world.

China is also a member of numerous formal and informal multilateral organisations, including the WTO[1], APEC[2], BRICS[3], the Shanghai Cooperation Organisation (SCO), the BCIM and the G-20[4]. China is considered a major regional power in Asia, and is seen by some as a potential superpower.

Due to the impact of the Covid-19 pandemic, China's FDI growth slowed but remained steady in 2022. According to statistics released by the Ministry of Commerce, China's actual use of foreign capital reached RMB 1.2 trillion, up 6.3% from the previous year. Although the growth slowed down from 14.9% in 2021[5], China's FDI remained at a high level thanks to an improving business environment and a mass consumption market. As China enters into a new post-Covid era, the government has promised to make greater efforts to attract and utilise foreign investment. Both state and local governments have announced measures to attract foreign investments, include expanding market access, opening up modern service sectors such as telecommunication, internet, finance, education, and culture, ensuring national treatment and improving services for foreign investors, optimising foreign investment in manufacturing sector by attracting companies with high-technology, research and development, modern logistics, new and green energy, and facilitating the launch of landmark foreign-funded projects.

As a measure to further open up market access to foreign investors, China and Singapore have announced to upgrade bilateral relations to an all-round high-quality future-oriented partnership during Singapore's Prime Minister Lee Hsien Loong's visit to China in April 2023. The upgraded free trade agreement (FTA) will improve market access for each other's business and enhance higher-quality cooperation. It also marks China's first FTA made with dual opening-up commitments in both services and investments under the negative list approach.[6]

[1] *https://www.wto.org*
[2] *https://www.apec.org*
[3] *http://infobrics.org*
[4] *https://g20.org/en/*
[5] *http://www.mofcom.gov.cn/*
[6] *https://www.globaltimes.cn/page/202304/1288421.shtml*

Ever since the global supply chain was severely disrupted by geopolitical conflicts, inflationary pressures, and the recessionary environment after the outbreak of Covid-19, China has been working with other countries to build a global industrial and supply chain system that is secure, stable, smooth, efficient, open, inclusive and mutually beneficial, according to a statement given by President Xi in an International Forum on Resilient and Stable Industrial and Supply Chains held in September 2022. Following the lifting of Covid-19 restrictions by the Chinese government, many international research firms and multinational corporations recognise the contribution made by China with its unique advantages in the supply chain system to stabilise the global supply chain. With continuous efforts made by the Chinese government to establish a strong manufacturing base, completed infrastructure, and an improving business environment, China remains a top destination in the global supply chain of many multinational corporations.

ADMINISTRATION

The National People's Congress, based in the capital city of Beijing, is the highest organ of state power in China. The central and highest organ of state administration is the State Council, which directly oversees the various subordinate people's governments at the provincial, directly-controlled municipal and autonomous regional levels.

The Communist Party is the only ruling party in China, while other political parties are represented in the National People's Congress and the Chinese People's Political Consultative Conference. Under the leadership of the Communist Party, a multi-party cooperation and political consultation system is established.

The 20th CPC National Congress was held in Beijing from 16 to 22 October 2022. Xi Jinping, General Secretary of the CPC Central Committee, delivered a report to the 20th CPC National Congress on behalf of the Central Committee of the 19th CPC National Congress at the Great Hall of the People in Beijing on 16 October. The 20th National Congress of the Communist Party of China (CPC) provides a new opportunity for China's high-level opening up to the outside world and new momentum for global economic growth. In the report of the 20th CPC National Congress, the word "opening up" was mentioned as many as 29 times, and the report emphasises the promotion of high level opening up and the promotion of the high-quality development of the Belt and Road Initiative (BRI)[7].

BELT AND ROAD INITIATIVE (BRI)

In late 2013, the Chinese government unveiled the 'Belt and Road Initiative' (BRI) as a development strategy involving infrastructure development and investment in Europe, Asia and Africa. The aim is to create a single large market that can be fully accessible on a national and international level through cultural exchange and integration. This is expected to enhance mutual understanding and trust among member countries and increase China's capital inflow, skilled talent and technological innovation.

The BRI is considered one of the largest infrastructure and investment projects in history, covering more than 68 countries, accounting for 65% of the world's population and 40% of global GDP. It fills an 'infrastructure gap' and has the potential to accelerate economic growth across the Asia-Pacific region and Central and Eastern Europe. As of 7 December 2022, China has signed BRI cooperation memorandums with 150 countries and 32 international organisations.[8]

[7] *http://www.chinadaily.com.cn/a/202210/28/WS635b7098a310fd2b29e7f162.html*
[8] *https://www.ndrc.gov.cn/*

REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)

The Regional Comprehensive Economic Partnership (RCEP) is a FTA that will create the world's largest trading bloc. The 15 Asia-Pacific nations, representing nearly a third of the world's gross domestic product, signed the agreement on 15 November 2020. The RCEP aims to remove tariffs on at least 90% of the goods traded among member countries and the gradual elimination of tariffs will reconfigure the supply chain in the region. China's complete infrastructure and manufacturing strength will enable other countries to be incorporated into its "dual circulation" plan.

Following the implementation of RCEP on 1 January 2022, the total imports and exports between China and RCEP member countries grew by 7.5% and reached RMB 12.95 trillion in 2022. The elimination of tariffs has benefited import and export businesses in China, resulting in an estimated savings of RMB 1.58 billion for exporting and RMB 1.55 billion for importing in 2022.[9]

It is expected that RCEP will promote free trade, reinforce industrial and supply chains, eliminate tariffs and open up services and investments to expedite regional economic recovery from the pandemic. The RCEP provides China with a more stable and solid strategic connection with Asia-Pacific countries.

[9] *https://baijiahao.baidu.com/s?id=1756712701081067432&wfr=spider&for=pc*

BUSINESS ENTITIES

FOREIGN INVESTED ENTITIES

Foreign investors are allowed to register the following types of entities:

FOREIGN-INVESTED COMPANY

Foreign-invested companies can be mainly divided into limited liability companies and joint-stock limited companies. Since the establishment of a joint-stock limited company involves very strict requirements and complicated procedures, the limited liability company is the first choice for most foreign investors.

Limited liability companies can be further divided into the following 2 types:

a) WHOLLY FOREIGN-OWNED ENTERPRISE (WFOE)

A WFOE refers to a company that is wholly owned by one or more foreign investors. The WFOE is a popular option for foreign businesses today because the investor has complete control over the business entity and can derive full profits from its operation. In addition, WFOEs offer better protection of the investor's intellectual property rights compared to other types of entities. The establishment of export-oriented or high-tech WFOEs is encouraged.

b) JOINT VENTURE (JV)

A Joint Venture refers to a company that is jointly invested by Chinese investors and foreign investors. It is worth noting that under the latest provisions of the "Foreign Investment Law of People's Republic of China", Chinese investors in a joint venture are no longer required to be an enterprise, which means that foreign investors can cooperate, jointly funded and establish an enterprise with any Chinese natural person or Chinese enterprise. This new policy offers foreign investors a more flexible choice.

FOREIGN-INVESTED PARTNERSHIP

A foreign invested partnership may include a number of foreign investors (companies or individuals) and potential Chinese investors. The State encourages foreign enterprises or individuals with advanced technology and management experience to establish partnerships to promote the development of relevant industries in the domestic market.

A general partnership consists of general partners who are jointly and severally liable for the debts of the partnership. Where there are special provisions in the Partnership Enterprise Law on the forms of liability borne by general partners, those provisions shall prevail. A professional entity with specialised knowledge and skills that offers paid services to its clients may form a specialised general partnership.

A limited liability partnership consists of general partners and limited partners, with the former bearing unlimited joint and several liability for the debts of the partnership and the latter bearing liability for those debts respectively within the limits of the capital contribution for which they have subscribed.

A general partner may make capital contributions in cash or in kind, or in the form of intellectual property rights, land-use rights or other property rights, or labour services. A limited partner shall not make capital contributions in the form of labour services.

REPRESENTATIVE OFFICE (RO)

Before actually investing in China, many foreign investors choose to set up representative offices (ROs) to conduct market research and learn more about the country, A RO is optional before making an actual investment in China and does not constitute an independent legal entity. The RO activities are limited to promotion or acting as a liaison office on behalf of the head office. It also engages in activities that services the head office.

A RO is not allowed to engage in profit-making activities. It can recruit local staff through approved employment agencies.

INCORPORATION OF BUSINESS ENTITIES

APPROVAL AND REGISTRATION PROCEDURE

The State Administration for Market Regulation ("SAMR") is responsible for approving the formation of foreign investment enterprises ("FIEs") and issuing business licences.

The approval of FIEs in China depends on the industry in which the investors intend to invest and the business activities that the new company intends to engage in. In general, foreign-invested projects can be divided into the following 2 main categories:

Encouraged Projects

In 2022, the National Development and Reform Commission and Ministry of Commerce released "The Catalogue of Industries Encouraging Foreign Investment (2022 Edition)" ("Catalogue"), which came into effect on 1 January 2023. Foreign-invested projects operating in the industries listed in this Catalogue may enjoy preferential tax incentives in accordance with laws, administrative regulations or the provisions of the State Council.

Restricted & Prohibited Projects

In 2021, the National Development and Reform Commission and the Ministry of Commerce released the "Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Edition)" ("Negative List"). This Negative List came into effect on 1 January 2022, and lists the industries in which foreign investment is restricted or prohibited.

COMPARISON OF MAIN INVESTMENT VEHICLES

<table>
<tr><th>WFOE</th><th>JV</th><th>RO</th></tr>
<tr><td colspan="3">Advantages</td></tr>
<tr><td>• Foreign investor has full equity control and management</td><td>• Reduce the investment amount and the risk for foreign investors</td><td>• Lower risk through initial market tests</td></tr>
<tr><td colspan="3">Disadvantages</td></tr>
<tr><td>• Cannot set up a WFOE in specific industries</td><td>• Does not have full equity control and management
• Foreign partner can only contribute up to 49% of registered capital in specific industries</td><td>• Non-independent legal entity
• Cannot engage in direct business activities
• Must engage a local agent to hire local staff</td></tr>
<tr><td colspan="3">Structure</td></tr>
<tr><td>• Shareholder or shareholders' meeting is the highest authority of the company
• A Legal Representative
• An Executive Director or Board of Directors
• A Supervisor or Board of Supervisors
• A General Manager (optional)</td><td>• The shareholder or shareholders' meeting is the highest authority of the company
• A Legal Representative
• An Executive Director or Board of Directors
• A Supervisor or Board of Supervisors
• A General Manager (optional)</td><td>• A Chief Representative
• No Shareholder
• No Director
• No Supervisor
• No General Manager</td></tr>
<tr><td colspan="3">Tax</td></tr>
<tr><td colspan="2">• Company Income Tax
• Value-Added Tax (VAT)
• Individual Income Tax
• Avoidance of Double Taxation Agreements apply
• Enjoy tax incentives: such as "Qualified Advanced and New Technology Enterprises"</td><td>• Taxation based on a deemed income basis, mainly includes company income tax, VAT and individual income tax (for details, see section on Taxation)</td></tr>
<tr><td colspan="3">Reporting & Compliance</td></tr>
<tr><td colspan="2">• Annual Audit and Annual Report</td><td>• Annual Audit and Annual Report</td></tr>
<tr><td colspan="3">Lead Time to Establishment</td></tr>
<tr><td colspan="2">• 1 month (upon submission of required documents)
• Foreign Invested Commercial Enterprise expected to take one month longer</td><td>• 1 month (upon submission of required documents)</td></tr>
</table>

ESTABLISHMENT PROCEDURES

This is a simplified version for reference purposes only.

Required documents provided by foreign investors

RO

Apply for and obtain:
- RO Registration Certificate
- Chief Representative Certificate

RO

Required documents provided by foreign investors

WFOE/JV

Apply for and obtain:
- Business Licence
- Electronic-Business License

WFOE/JV

Engrave Official Seal, Financial Seal, Legal Representative Seal, and Fapiao Seal

RO

Open RMB basic bank account

WFOE/JV

Open Bank accounts:
- Open CNY basic account
- Apply for and obtain Foreign Exchange Registration Certificate
- Open foreign currency capital account

WFOE/JV

If business activities involve import and export, the company shall apply for and obtain additionally:
- Customs Registration Certificate
- Electronic Port Card

CAPITAL CONTRIBUTION

China currently implements a "no-minimum registered capital rule", whereby the authority does not require proof of a company's capital injection at the time of registration. This enables companies to complete their business registration without the immediate need for capital injection. However, in practice, we recommend ensuring that the Registered Capital is adequate to cover initial running costs. The method, amount, and schedule of capital injection must still be specified in the company's Articles of Association. The capital contribution regime serves to uphold foreign investment objectives and regulate investment behaviour. The capital contribution regime serves to ensure proper foreign investment objectives and regulate investment behaviour. The registered capital of a foreign invested company refers to the capital registered with the SAMR for the establishment of the foreign-invested company to meet the initial operating needs of the foreign invested company. The foreign investor may contribute capital according to the capital contribution scheme, increase its registered capital or subject to the authority's approval, and also reduce its registered capital during the operating period under existing regulations.

Registered capital (RC) is the total capital that should be contributed by the shareholders. However, another related concept, "total investment" (TI), should also be considered before incorporation. Both RC and TI of a foreign invested company need to be stated in its Articles of Association. The ceiling for loan financing (by a bank/shareholder) is limited to the difference between the TI and RC, while also being subjected to the following guidelines on the ratio.

TI	Minimum RC Requirement according to the TI
TI ≤ US$3 million	70% of TI
US$3 million < TI ≤ US$10 million	50% of TI and not less than US$2.1 million
US$10 million < TI ≤ US$30 million	40% of TI and not less than US$5 million
TI > US$30 million	1/3 of TI and not less than US$12 million

AUDIT REQUIREMENTS

All foreign invested companies must appoint a China-registered Certified Public Accountant (CPA) firm to audit their financial statements at the end of the accounting year and issue an auditor's report. Audits are required under the company laws, accounting regulations and income tax laws in China. Audited financial statements are also used for tax reporting purposes.

The independent Chinese auditor appointed by a foreign invested company should be qualified and registered with the Chinese Institute of Certified Public Accountants to practise in China.

ANNUAL REPORT

Foreign invested companies and representative offices are required to prepare and submit an annual report by 30 June each year. If the annual report is not submitted on time, the entity will be categorised as an "abnormal operation status" by the local authority and even fined. This will have a negative impact on the normal operation of the company.

LIQUIDATION & DE-REGISTRATION

Chinese authority accepts 2 ways of de-registration application.

General de-registration Procedure (applies to all companies)	**Simplified de-registration Procedure** (applies to companies that meet certain conditions)
• Set up a liquidation group • Make an announcement • Announcement period is at least 45 days • Tax clearance • Carry out the liquidation and prepare a liquidation report. • The liquidation report must be signed by all members of the liquidation group, and by all investors.	• Liquidation group is not required • Make an announcement • Announcement period must be at least 20 days • Tax clearance • A liquidation report is not required • A commitment letter is required, signed by all investors.

THE ENTERPRISE BANKRUPTCY LAW

The Enterprise Bankruptcy Law (the "EBL") was updated effective 1 June 2007, to provide a clearer legal basis for formal bankruptcy proceedings.

The EBL applies to enterprises (whether state- or privately-owned) that are insolvent or at risk of becoming insolvent. It also extends to the debtors' overseas assets.

The EBL defines priority of claims on bankruptcy assets as follows:

(1) Secured claims

(2) Costs and expenses of the bankruptcy administration

(3) Salaries, compensation, superannuation, etc. of employees

(4) Social insurance and taxes

(5) Other unsecured claims

If the bankrupt has no assets to be realised for distribution, the administrator shall apply to the Court to conclude the bankruptcy administration.

The introduction of EBL demonstrates China's intention to align its insolvency framework with international practices. It also provides foreign investors with a defined mechanism for dealing with their investments in distressed situations.

FOREIGN EXCHANGE CONTROLS

OVERVIEW OF FOREIGN EXCHANGE CONTROLS

RMB EXCHANGE RATE REFORM

The Renminbi ("RMB") is the official currency in mainland China, and is issued in the Yuan (元), Jiao (角), and Fen (分) denominations (1 Yuan = 10 Jiao = 100 Fen).

The People's Bank of China is the country's central bank ("Central Bank"), responsible for formulating the exchange rates between the RMB and major foreign currencies (i.e. USD, EUR, HKD, JPY and GBP).

As part of efforts to reform the RMB exchange rate system since 2005, the Central Bank took a major step on 11 August 2015 when it introduced the middle rate, which is mainly determined by the market. However, the Central Bank continues to strive for a balance between ensuring the stability of its monetary policy and exchange rate reforms.

The State Administration of Foreign Exchange (SAFE) is the authority responsible for foreign currency exchange control in China.

SIMPLIFIED DOMESTIC AND OVERSEAS DIRECT INVESTMENT REGISTRATION PROCEDURE

As of 1 June 2015, SAFE has eliminated the administrative examination and approval procedures related to foreign exchange registration approvals for domestic and overseas direct investments. Instead, SAFE authorises banks to review and handle direct investment-related foreign exchange registrations and other related activities. This includes tasks such as examination, reporting statistics, and monitoring and registering domestic and overseas direct investments within the scope of SAFE's authorisation and under the guidance of SAFE.

After completing the registration of domestic direct investment, the foreign-invested company can open a capital account in RMB or foreign currency and deposit its registered capital into this capital account.

ENFORCING DISCRETIONAL FOREIGN EXCHANGE SETTLEMENT

A foreign invested company can settle foreign exchange capital into its capital account at its own discretion since 1 June 2015. The proportion of discretionary settlement of foreign exchange capital of foreign-invested companies is temporarily set at 100%. SAFE may adjust the aforementioned proportion in due course based on the international balance of payments situation.

REMITTANCE OF FUNDS OUT OF CHINA

SAFE regulates remittance of funds out of China under the trading and capital categories.

Options for the remittance of funds from China:

No.	Type of Remittance	Category	Documents Required	Legal Compliance
1	Service fee to overseas service provider	Service trading	• Service agreement • Invoice • Tax Payment Certificate • Other documents supporting this service transaction	SAFE Hui Fa [2020] No.14
2	Goods trading	Goods trading	• Goods trading agreement • Invoice • Customs documents • Other documents supporting this goods transaction	SAFE Hui Fa [2012] No. 38. SAFE Hui Fa [2016] No. 7 should serve as a backup in case of discrepancies between two regulations.
3	Dividends and profits	Capital	• Shareholder Resolution • Proof of tax payment subject to China's tax regulations	SAFE Hui Fa [2013] No. 80, (certain articles were corrected by SAFE Hui Fa [2015] No. 20). SAFE Hui Fa [2016] No. 7 should serve as a backup in case of discrepancies between SAFE Hui Fa [2015] No. 20) and SAFE Hui Fa [2016] No. 7.
4	Foreign loans	Capital	• Foreign loan agreement • Other supporting documents required by SAFE	SAFE Hui Fa [2013] No. 19 (certain articles were corrected by SAFE Hui Fa [2015] No. 20). SAFE Hui Fa [2016] No. 7 should serve as a backup in case of any discrepancies between SAFE Hui Fa [2015] No. 20) and SAFE Hui Fa [2016] No. 7.

TAXATION

OVERVIEW OF CHINA TAX

TYPES OF TAXES

In general, taxes in China are categorised as follows:

Taxes on turnover or revenue:

- Value added tax (VAT)
- VAT surcharges (City maintenance and construction tax and education surcharge)
- Consumption tax (CT)
- Customs duty

Taxes on income:

- Enterprise income tax (EIT)
- Individual income tax (IIT)

Taxes on property:

- Real estate tax
- Vehicle and vessel usage tax
- Contractual tax (Deed tax)
- Vehicle purchase tax

Taxes on natural resources:

- Resource tax
- Environmental protection tax
- Tobacco tax
- Urban land use tax

Taxes on transactions:

- Stamp duty tax
- Farmland conversion tax
- Tonnage tax
- Land value-added tax

OVERVIEW OF SOME IMPORTANT TAX RATES

Tax Category	Important Taxes	Tax Rate %
Taxes on Income	**Individual Income Tax** Comprehensive Income: • Wage and salary income • Income from labour remuneration • Income from author's remuneration • Income from royalties	3–45 (7 progressive tax rates in total)
	Income from business operation	5–35 (5 progressive rates in total)
	• Income from interest, dividends and bonuses • Income derived from leasing of property • Income derived from transfer of property • Occasional income	20
	Enterprise Income Tax • Income of resident enterprises	25
	• Preferential tax rate (e.g. High and New Technology Enterprises)	15
	• China-sourced income of foreign enterprises without establishment in China • Income of foreign enterprises with establishment in China, income not connected with the establishment	10–20 (withholding tax)
Taxes on Turnover	**VAT** • Sales of general goods, providing processing, repair or maintenance services in China, importing goods into China.	13
	• Leasing of tangible personal property • Sale of goods with lower tax rates such as agricultural products, tap water, books and fodder. • Transportation services, postal services, basic telecommunications services, construction services, leasing of immovable properties, sale of real property, or transfer of any land use rights.	9
	• Telecommunication value-added service, financial services, modern services (research and development and technical services, information technology services, cultural creativity services, logistical ancillary services, attestation consulting services, radio, film and television services, commercial support services and other modern services), lifestyle services, sale of intangible assets such as technologies, trademarks, copyrights, goodwill, rights to use natural resources (excluding land use rights) and other equity intangible assets.	6
	• Any cross-border taxable activity conducted by an entity or individual within the territory.	0
	Consumption Tax • "Luxury goods" (tobacco, wines, cosmetics etc., depends on the good). • Resource-intensive goods	1–56

ADMINISTRATION AND REGULATIONS

a) Tax year

The tax year is the calendar year. Tax quarters and tax months are calendar quarters and calendar months, respectively.

b) Filing and payment

Type of Return	Person Responsible for Filing	Filing & Payment Deadline
Individual Income Tax (for Comprehensive Income)	Withholding agent (i.e. the employer)	The withholding agent withholds IIT within 15 days after the end of each month in advance, and the taxpayer must make the annual IIT filing between 1 March and 30 June of the following year.
Enterprise Income Tax	Enterprises and foreign enterprises with establishments in China	a) Quarterly return and payment—within 15 days after the end of each quarter b) Annual return and payment—within months after the end of the tax year (together with financial and accounting records)
Withholding Tax	Withholding agent	Within 15 days after the end of each month
Value Added Tax	Taxpayer	a) 1,5, 10 or 15 days' return and payment— within 5 days after the end of the period, final return and settlement of tax discrepancies within 15 days after the end of the following month. b) 1 month's or 1 quarter's return and payment— within 15 days after the end of the period. c) Imports—within 15 days after customs issues the tax payment certificate. d) Exports—apply for a refund of tax paid on a monthly basis.
Consumption Tax	Taxpayer	a) 5, 10 or 15 days' return and payment— within 5 days after the end of the period, settlement of tax discrepancies within 15 days after the end of the following month. b) 1 month's or 1 quarter's return and payment—within 15 days from the end of the period. c) Imports—within 15 days after customs issues the tax payment certificate.
Customs Duty	Taxpayer or agent	Within 15 days after the issuance date of the customs duty payment certificate.

c) Consolidated returns

China generally does not permit the filing of consolidated returns; each company must file a separate return.

d) Statute of limitations

The statute of limitations for assessment and collection is three years if an underpayment of tax is due to the taxpayer's inadvertent error in tax computation (e.g. incorrect application of a formula).

The period is extended to five years if the cumulative amount of underpaid taxes exceeds RMB 100,000. The statute of limitations period can be up to 10 years for underpayment of enterprise income tax arising from transfer pricing issues or arrangements without a bona fide business purpose. There is no statute of limitations for tax evasion.

e) Tax authorities

Tax legislation and policy are jointly developed by the State Taxation Administration (STA) and the Ministry of Finance, with the STA and its provincial and municipal offices administering tax policies. Each locality in China has a state tax bureau under the STA and a local tax bureau under both the STA and the local government. The STA and state tax bureaus are primarily responsible for the collection and administration of taxes that generate revenue for the central government or revenue that are shared between the central and local governments.

f) Rulings

Advance ruling procedures are not widely used in China. Taxpayers usually approach their local tax officials on an unofficial basis when problems arise. In special cases, tax authorities may issue post-transaction rulings. China does allow for advance pricing arrangements (APAs). Advance ruling procedures have been tested in certain large businesses.

TYPES OF TAXES

VALUE ADDED TAX (VAT)

This section is updated as of 31 December 2022. Businesses should note that China has started a massive VAT reform in 2019 in areas such as VAT rate and VAT calculation, and keep track of the latest VAT updates.

VAT is a national tax, with a single rate imposed regardless of the location of the VAT taxpayer. China's VAT is generally levied on any person engaged in the sale of goods or the provision of processing, repair or replacement services within China, as well as on imports of goods into China.

The VAT reform pilot programme was launched in Shanghai on 1 January 2012, following the Chinese State Council's decision on 26 October 2011. The VAT reform (which initially applied to the non-railway transportation and modern services sectors) was rolled out nationwide, and new sectors were included in the scope of the reform (i.e. railway transportation and postal services have been included in the scope of the VAT reform since 1 January 2014; telecommunication services have been included since 1 June 2014).

At the opening ceremony of the National People's Congress on 5 March 2016, Premier Li Keqiang announced that effective from 1 May 2016, VAT will replace the Business Tax (BT) in all sectors, including real estate & construction, financial services and insurance, and lifestyle services (including hospitality, food and beverage, healthcare and entertainment).

According to the announcement on the VAT Reform implemented from 1 April 2019, the VAT rate applicable to general VAT payers for sales of goods/import of goods has been reduced from 16% to 13% , and the VAT rate from 10% to 9%.

The VAT reform aims to solve the double taxation issues arising from the indirect tax system (since the BT system does not allow for a VAT-like credit mechanism, the BT paid by buyers cannot be recovered against their own BT liability, and VAT cannot be recovered by purchasers who are only liable to BT), and to promote the development of modern service industries by gradually transitioning these industries from BT liability to VAT liability.

a) Scope of VAT

Sales and imports of goods, provision of processing, replacement and repair services, and other services

b) Types of VAT taxpayers

General taxpayers

General taxpayers are those whose taxable turnover exceeds the threshold for small-scale taxpayers. General taxpayers can deduct the input VAT from the output VAT, which can result in significant cost savings. In addition, registration as a general VAT taxpayer can increase the amount of potential output VAT, as general taxpayers are allowed to issue VAT receipts.

If the turnover of a company exceeds the threshold, it is mandatory to apply for general VAT taxpayer status. However, companies below this threshold may also apply for recognition as a general VAT taxpayer (subject to approval by the supervising tax bureau). Once a small-scale taxpayer is recognised as a general taxpayer, the small-scale taxpayer status no longer applies even if its sales fall below the threshold in the future. [Note: General taxpayer status must be granted by the tax authority.]

Small-scale VAT taxpayers

The annual taxable sales revenue threshold of a small-scale VAT payer shall be less than or equal to RMB5 million.

Small-scale VAT taxpayers who are able to provide sound and accurate accounting and tax-related information can register with the appointed tax authorities to apply for general taxpayer status.

c) Calculation of VAT

Taxable Income	Scope	VAT Rate
Sale of Goods/ Imported Goods	General goods	13%
	Goods with lower tax rates such as agricultural products, tap water, books and fodder	9%
Sale of Labour Services	Processing, repair and fitting services	13%
Transportation Services	Overland transportation, pipeline transportation, business of carriage without transport carrier	9%
Postal Services	Universal postal service, other postal services	9%
Telecommunications Services	Basic telecommunications services	9%
	Telecommunications value-added services	6%
Construction Services	Engineering services, installation services, renovation services, decoration services, other construction services	9%
Financial Services	Loan services, direct fee charging financial services, insurance services, transfer of financial instruments	6%
Modern Services	Leasing services—leasing immovable properties	9%
	Leasing services—leasing tangible properties	13%
	Research and development and technical services, information technology services, cultural creative services, logistics ancillary services, attestation consulting services, radio, film and television services, commercial support services and other modern services	6%
Lifestyle Services	Cultural and sports services, education and medical services, tourism and entertainment services, catering and accommodation services, daily needs services for residents, other lifestyle services	6%
Sale of Intangible Assets	Technologies, trademarks, copyrights, goodwill, rights to use of natural resources (excluding land use rights) and other equity intangible assets	6%
	Land use rights	9%
Sale of Real Properties	Ownership of buildings and structures, limited property rights or perpetual use rights to buildings, ownership of buildings or structures under construction, transfer of land use rights for land occupied by buildings or structures	9%

Note: The VAT rates above are updated as at 31 December 2022.

Small-scale VAT taxpayers pay VAT at a rate of 3%, but there is no VAT input credit (i.e. this is a simplified VAT calculation method).

Under the VAT reform, the zero rate may be applied to R&D/design services for foreign entities and international transportation services, while qualifying cross-border services may be VAT-exempt. Inputs VAT incurred for zero-rated services may be refunded, but are not recoverable for VAT-exempt services.

VAT incurred on the purchase or construction of fixed assets (excluding immovable property) may be credited against output VAT. However, Inputs VAT from the following items, cannot be deducted from the output VAT:

- Purchases of goods and services for exclusive use for non-VAT taxable, VAT-exempt projects or projects subject to a simplified VAT calculation method, for welfare activities or individual consumption.
- The purchase of yachts, motorcycles and motor vehicles subject to consumption tax and intended for the taxpayer's own use.
- Purchased goods and relevant services that are lost in an unusual manner.
- Goods and relevant services purchased and consumed or used for products or finished goods that are lost in an unusual manner.
- The purchase of passenger transportation services.

The export refund rate is adjusted to 13% for the export of goods and cross-border VAT taxable activities that were originally subject to the VAT rate and the export refund rate of 16%. The export refund rate is adjusted to 9% for exports of goods and cross-border VAT taxable activities that were originally subject to the VAT rate and the export refund rate of 10%.

d) Administration and regulations

A company must register with the local tax authorities at the time of incorporation in order to have its status recognised as a general VAT payer or a small-scale VAT taxpayer.

VAT returns are generally filed for each calendar month and must be submitted before the 15th day of the following month. A taxpayer importing goods must pay the tax within 15 days of the issuance of the tax payment certificate by the customs authorities.

VAT SURCHARGES (CITY MAINTENANCE AND CONSTRUCTION TAX AND EDUCATION SURCHARGE)

The city maintenance and construction tax and education surcharge apply to entities and individuals subject to VAT or consumption tax.

The rates for city maintenance and construction tax depend on the location of the taxpayer or withholding agent: 7% for a location in a city, 5% for a county and town area, and 1% at other locations.

The national education surcharge is levied at a flat rate of 3%. The rate for the local education surcharge, whose collection mechanism is nearly identical to that of the national education surcharge, can be applied at the discretion of the local government. However, after the Ministry of Finance issued a notice in 2010 requesting all local governments to set the local education surcharge at a flat rate of 2%, in order to standardise the application of the surcharge across the country, many provinces have applied the 2% rate.

CONSUMPTION TAX (CT)

Consumption tax applies to the production, processing and import of prescribed non-essential and luxury, and resource-intensive goods, such as tobacco, alcoholic drinks, cosmetics, fuel, expensive watches, disposable wooden chopsticks, yachts, golf, jewellery, car tyres, motorcycles and motor cars.

The tax is calculated based on the quantity or price of goods sold, or in certain cases, on a combination of both. For example, the tax rate for gasoline is RMB 0.2 per litre and therefore based on quantity. On the other hand, the tax rate for cigars is 40% of the selling price.

The proportional consumption tax rate ranges from 3% to 56% of revenue for the different types of goods. Consumption tax paid on exports is fully refundable.

CUSTOMS DUTY

Import duties are levied at both general and preferential rates. The preferential rates apply to imports from countries or regions that have signed agreements with China containing reciprocal preferential tariff clauses, while general tariff rates apply to imports from all other jurisdictions. However, if special permission is granted by the State Council Customs Tariff, preferential tariff rates may be applied to imports that would otherwise be subject to the general rates.

To encourage foreign investment, foreign-invested companies that meet certain requirements may be exempted from customs duties on imports of machinery and equipment for their own use.

a) Customs valuation

Import customs duties are levied based on the Cost Insurance Freight (CIF) value. Export customs duties are calculated based on the Free on Board (FOB) price of goods less export duty.

b) Reduction and exemption

Customs duties are reduced or payers are exempted from them under the following conditions:

Reduction or Exemption	Exemption
• Goods damaged, destroyed or lost enroute to the customs territory or at the time of unloading. • Goods damaged, destroyed or lost due to force majeure after unloading but prior to release. • Goods discovered to be already leaking, damaged or spoiled at the time of customs inspection, provided that the damage is proven to be due to reasons other than improper storage. • Commodities covered by concluded international treaties. • Applicable to certain areas (bonded areas, economic development zones, etc). • Imported goods with special usage (scientific research and educational purposes, for disabled persons, for designated enterprises covered by the "Domestic Component Content" policy, etc). • Commodities under certain special trade modes (processing trade, consignment sales, etc).	• Consignment of goods where the estimated customs duty is less than RMB 50. • Advertising materials and samples of no commercial value. • Goods and materials that are rendered gratis by international organisations or foreign governments. • Fuel, stores, beverages and provisions for use en route loaded on any means of transport, which are in transit across the frontier. • Exported/imported goods that are shipped back into/out of the customs territory for legitimate reasons. • Certain machinery and equipment imported for own use by foreign-invested companies under projects categorised as 'encouraged' or 'restricted'.

c) Temporary exemption

Customs may grant temporary exemption treatment for Temporary Import/Export Commodities. These commodities must be reshipped out of or into the customs territory within six months. A guarantee letter or security deposit of an amount equivalent to the customs duty must be submitted to Customs.

Items that qualify for temporary exemption include trade samples, exhibits, engineering equipment, vehicles and vessels for construction, instruments and tools for installation, cinematographic and television apparatus, containers, theatrical costumes and paraphernalia.

d) Payment of customs duties

The payer or its agent shall make a timely customs declaration and settle the customs duty within 15 days after the issuance date of the customs duty payment certificate. Late payment will be subject to a penalty of 0.05% daily on the overdue customs duties.

ENTERPRISE INCOME TAX (EIT)

Resident enterprises must pay the EIT on their worldwide income. Foreign companies with an establishment need to pay the income tax associated with that establishment. Foreign companies without an establishment are subject to EIT on income they earn within China.

a) Tax calculation

Tax liability = [Total revenue – Non-taxable revenue – Tax-exempt revenue – Costs – Expenses – Losses] x Applicable tax rate – Allowable reductions/exemptions – Tax credit

- The standard tax rate is 25%. For high and new technology enterprises, the tax rate is 15%.
- Withholding tax rates vary depending on the country. In most cases, the rate is 10%, but in some countries, it may differ.
- Tax reductions are available for environmentally friendly projects.

b) Tax registration

Enterprises are required to register with the local tax authorities within 30 days from the date of obtaining the business licence or business registration certificate.

A non-resident enterprise carrying out contractual projects or providing services in the territory of China shall register with the tax authorities of the country where the project is located within 30 days of the completion of the project/service contract.

c) Tax credit

A tax credit will be allowed on the amount of income tax actually paid by the enterprise outside China (in accordance with foreign tax laws) on income derived by the enterprise outside China. However, the amount of tax credit should not exceed the amount of China income tax payable on the foreign-sourced income. Any excess tax credits can be carried forward for a maximum period of five years.

d) Assessment and administration

The tax year starts on 1 January and ends on 31 December.

All companies are required to submit their provisional tax returns and advance tax payments in RMB (to be determined by the tax authorities), within 15 days after the end of the month/quarter. An annual EIT tax return, together with financial and accounting reports and other relevant information (e.g. related party transactions annual return), should be filed within five months after the end of the tax year, regardless of whether the enterprise makes profits or losses. Any deficiency shall be settled within five months of the end of each tax year and any overpayments shall be refunded.

Companies in a group are not allowed to pay EIT on a consolidated basis, unless approved by the State Council.

INDIVIDUAL INCOME TAX (IIT)

a) Payment and calculation

Whether or not expatriates working in China are subject to IIT in China depends on several key factors:

- Amount of the expatriate's income
- Duration of stay
- Income source
- Positions held by the expatriate in his or her host country and home country's company

Expatriate's level of income

The expatriate income, including base salary, incentive compensation such as commissions and bonuses, cash allowances and contributions to overseas insurance scheme, should be subject to China IIT under the 'comprehensive income' category, if such income is related to a job assignment in China.

Therefore, the tax rate levied on that comprehensive income depends on its cumulative amount. China applies a progressive tax system with seven levels ranging from 3% to 45%. As of 1 October 2018, the standard deduction on comprehensive income is RMB 60, 000 on an annual basis for all tax residents, which means that the standard deduction is RMB 5,000 per month.

In addition, for each level of the progressive taxation system, an additional 'quick deduction' amount will be deducted from this level of taxable income.

The following table gives an overview of IIT taxation grades for expatriates' comprehensive income.

Income Range (RMB)	Tax Rate (%)	Quick Deduction (RMB)
<3,000	3	0
3,000–12,000	10	210
Over 12,000–25,000	20	1,410
Over 25,000–35,000	25	2,660
Over 35,000–55,000	30	4,410
Over 55,000–80,000	35	7,160
>80,000	45	15,160

As mentioned earlier, the monthly standard deduction for expatriates is RMB 5,000 per month. Therefore, the following formula is used to calculate the expatriate's monthly IIT burden:

[(Gross Monthly Taxable Income – RMB 5,000) x Tax Rate] – Quick Deduction

Duration of stay and income source

Previously, non-domiciled foreign individuals who reside in China for more than one year but less than five consecutive years are subject to tax on their China-sourced income and the portion of foreign-sourced income that is paid or borne by units or individuals located in China. Non-domiciled foreign individuals who reside in China for more than five consecutive years are subject to tax, starting from the sixth year, on their global income for every "full year".

According to the new IIT law, non-domiciled foreign individuals who stay in China for 183 days or more within a calendar year will be deemed as a China resident and subject to China IIT on relevant income globally.

According to the new six-year ruling for expatriates that took effect in 2019, overseas incomes (such as capital gain on property transfer, dividend income derived from overseas entity, etc.) of expatriates who stay in China for not more than six years may be exempted from China IIT if they have completed the tax registration with the relevant tax bureau departments.

Income sources of directors', supervisors' and senior executives' remuneration

If the expatriate assumes the role of a director, supervisor or any other senior executive position in a domestic resident enterprise, and receives director fees, supervisor fees, wages, salaries or other similar remuneration (including bonuses and stock option incentives), such income is deemed to be a source from China, regardless of where the expatriate fulfils his or her duty. This applies to income paid directly or borne by the domestic resident enterprise.

Senior executives refer to senior management, general and deputy (general) managers, chief engineers of all functions, directors and other similar management positions.

Individuals without residence in China may receive wages and salaries for work in a China-based entity related to an overseas employer. If the overseas employer pays the wages and salaries for such work in whole or in part, such individuals must either declare to the Chinese tax authority that they will pay IIT directly or the China-based entity will pay the IIT on behalf of their employee.

The China-based entity is required to report relevant information to the tax authority in charge within 15 days after the end of the month when the relevant income is paid. These include work arrangements made by the China-based entity and related overseas employer for individuals without residence in China, payment status of relevant wages and salaries borne by the related overseas party, and the individual's contact information.

b) Tax registration

Expatriates who are liable to pay IIT are required to register with the relevant tax authority. The tax authority will allocate a unique taxpayer identification number for the expatriate's monthly IIT filing purposes.

What must be included under employment income?

- Wages
- Salaries
- Bonuses
- Year-end bonuses
- Dividends
- Various allowances
- Subsidies
- Stock options
- Long-service awards
- Severance payments
- Personal taxes paid by employers on behalf of employees

According to the prevailing IIT regulations, the following fringe benefits received by expatriates are exempted from individual income tax until the end of 2023, if certain conditions are met and approvals (where required) are given based on the tax bureau's requirements below:

- Housing, meal and laundry allowances received in a non-cash form or on a reimbursement basis
- Reimbursement of relocation expenses upon commencement or cessation of China assignment
- Home leave allowance—two trips per calendar year
- Allowances for language training and children's education
- Mandatory social security benefits

Expatriates should provide the employer with valid invoices and other relevant supporting documents, and the employer should retain them for the purpose of IIT exemption. Otherwise, the allowances mentioned earlier should be combined with the base salary and subject to IIT accordingly.

c) Tax credit

Tax credit will be allowed on income tax paid by the individual (Chinese and resident taxpayers) outside China for income derived by the individual outside China. However, the credit amount shall not exceed the individual's China income tax that would have been payable on the foreign-sourced income. The excess tax credit (after offsetting the individual's China income tax payable for that year) can be carried forward for a maximum period of five years.

d) Assessment and administration

The tax year starts on 1 January and ends on 31 December.

IIT for comprehensive income will now be calculated on an annual rather than monthly basis for tax residents according to the new IIT law.

However, withholding tax agents will continue to withhold tax and file the tax returns in advance on a monthly basis.

All taxpayers are allowed a monthly deduction of RMB 5,000 with effect from 1 October 2018. The taxable income, after the monthly deduction, will be taxed on a progressive basis at a rate ranging from 3% to 45%.

The employer is primarily responsible for withholding individual income tax from employees. The tax withheld shall be remitted to the State Treasury within 15 days after the end of each month. Otherwise, a late fee or penalties will be imposed.

In addition, individuals are required to keep records of income from all sources and report these annually to the local tax authority by 30 June every year if they are in any of the following circumstances:

(1) The taxpayer receives general income in more than two places, and the balance of the annual general income minus special deductions exceeds RMB 60,000;

(2) The taxpayer has one or more income sources for personal services, author's remuneration and royalties, and the balance of the annual general income minus special deductions exceeds RMB 60,000;

(3) The amount of tax paid in advance during the tax year is lower than the amount of tax payable;

(4) The taxpayer applies for a tax refund; or

(5) The taxpayer was originally a non-resident individual but subsequently meets resident individual conditions due to extension of the residence duration to 183 days or more within a calendar year. If the resident taxpayer is expected to leave China without returning in the same year of departure, he/she must make a final tax settlement before leaving the country.

REAL ESTATE TAX

Real estate (property) tax is levied on an annual basis and payable on an instalment basis. The local tax authorities will determine when the real estate taxes are payable.

An individual's residential real estate is currently exempt from real estate tax unless it is rented out.

a) Who pays the real estate tax?

Circumstance	Person Responsible for Payment
Real estate is used by the owner to earn rental income.	Owner
Real estate is mortgaged.	Mortgagee
The owner or mortgagee does not use the real estate, or ownership of the real estate is not yet established.	Custodian or user of real estate

b) Calculation of real estate tax

Annual real estate tax payable = Tax basis x Tax rate

Circumstance	Tax Rate	Tax Basis
Enterprises using their own real estate	1.2%	70% to 90% of the original value of real estate
Enterprises/individuals renting out their real estate	12% or 4%*	Rental income
Individuals residing in their own real estate	0%	Not applicable

* *A reduced tax rate of 4% applies to individuals renting out residential real estate.*

VEHICLE AND VESSEL USAGE TAX

Owners or managers of vehicles and vessels used within the territory of China are required to pay vehicle and vessel usage tax. Tax is assessed on net tonnage of the vessel or vehicle, or on a per unit basis.

Assessment and administration

Vehicle and vessel usage tax is assessed on an annual basis with payment to be made together with the compulsory traffic accident liability insurance for motor vehicles.

CONTRACTUAL TAX (DEED TAX)

Where land use rights or building ownership rights are transferred within China, the transferee enterprises or individuals have the obligation to pay deed tax. The transfer of land use rights or building ownership rights refers to:

- The grant of state-owned land use rights
- The transfer of land use rights, including sale, gift or exchange
- Buying and selling of buildings
- A gift of buildings
- The exchange of buildings

a) Tax rates

The deed tax ranges from 3% to 5%, and the actual rates will be determined by the provincial or local governments.

b) Payment

The obligation of the transferee to pay deed tax arises on the date when the contract for the land use or building ownership transfer is signed or when the documents for the ownership transfer are obtained.

The transferee is required to file the deed tax return with the local tax authorities within 10 days from the date of the obligation to pay deed tax. The local tax authorities will set the time limit on when the tax must be paid. Any late payment will incur a penalty of 0.05% per day on the overdue amount.

VEHICLE PURCHASE TAX

The vehicle purchase tax is levied on taxpayers who purchase automobile, trams, trailers, agricultural transport vehicles and other taxable vehicles. The vehicle purchase tax is calculated based on the value of the purchase at a tax rate of 10%. The taxable price refers to the total price paid to the seller by the taxpayers for the purchase of vehicle and the additional cost (excluding VAT).

Taxpayers who purchase taxable vehicles shall, within 60 days from the date of purchase, declare and pay tax in one lump sum.

RESOURCE TAX

The resource (natural resources) tax is levied on enterprises and individuals engaged in the exploitation of mineral products or production of salt within the territory of China and on waters under the country's jurisdiction. A nationwide reform of the resource tax was launched in 2011, changing the tax basis from volume of resources extracted to selling price for certain categories of taxable resources, e.g., crude oil, natural gas and coal. For most other taxable resources, the tax is still calculated based on the volume of products sold or procured, at revised tax rates. The resource tax is payable to the local authorities at the place of production or exploitation.

Since 1 September 2020, the Resource Tax Laws of PRC has been implemented.

a) Taxable products and tax rates

Product	Tax Rate
Crude oil	6%
Natural gas	6%
Coal	2-10%
Other non-metallic mineral ores	1-12%
Ferrous metallic mineral ores	1-9%
Non-ferrous metallic mineral ores	2-10%
Solid salt	2-5%

b) Assessment and administration

Payment shall be made to the local tax authorities of the region where the taxable product is mined or produced. The tax filing shall be conducted on a monthly or quarterly basis within 15 days after the end of a month or a quarter.

ENVIRONMENTAL PROTECTION TAX

The Environmental Protection Tax Law of PRC was implemented on 1 January 2018. It marks the beginning of a string of new policies aimed at getting China's pollution under control. The Environmental Protection Tax Law applies to the following four categories: water pollution, air pollution, noise pollution and solid wastes.
The table below summarises some of the major tax rates for each category.

Categories	Tax unit	Tax amount (RMB)
Air pollution	Per pollution equivalent	1.2 to 12
Water pollution	Per pollution equivalent	1.4 to 14
Solid wastes	Per ton	5, 15, 25, 1000
Noise pollution	Industrial noise	350, 700, 1400, 2800, 5600, or 11200 per month

Payment is made to the local tax authorities where the pollution is produced. The tax filing must be conducted on a monthly or quarterly basis within 15 days after the end of a month or a quarter.

TOBACCO TAX

On 1 July 2018, the Tobacco Tax Law of PRC was implemented. The taxpayers liable for the tobacco tax are those who purchase flue-cured tobacco. The tax amount is calculated based on the amount of purchase at a tax rate of 20%.

The tobacco tax is collected by the local tax authorities where the tobacco is purchased. The tax filing must be conducted on a monthly basis within 15 days after the end of a month.

URBAN LAND USE TAX

Urban land use tax is levied on enterprises or individuals using state-owned land in cities, county sites, administrative towns or industrial and mining areas. It is calculated on an annual basis by multiplying the actual land area used by the quota tax rate, which varies depending on the land's location. The tax rate varies from RMB 0.6 to RMB 30 per square meter.

STAMP DUTY

Stamp duty, ranging from 0.005% (for loan agreements) to 0.1% (for leasing agreements, property insurance contracts, warehousing and storage contracts), applies to prescribed contracts, written certificates of transfer of property rights, business account books and permits. The rate on share transactions is 0.1% for shares listed on a domestic stock exchange.

On 1 July 2022, the Stamp Duty Tax Law of PRC was implemented.

Item	Scope	Tax Rate
Purchase and sales contracts	Contracts of supply, pre-purchase, procurement, purchase for an organisation or enterprise, purchase and sale combinations and cooperation, adjustment, compensation, barter etc.	0.03% of the purchase or sales price
Construction and installation project contracts	Construction contracts and installation contracts.	0.03% of the contract amount
Property leasing contracts	Contracts for the leasing of housing, vessels, aircraft, motorised vehicles, machinery, tools and equipment.	0.1% of the leasing fee
Commodity transportation contracts	Contracts for the transport of goods by civil aircraft, rail, ship, river and road and coordinated transport contracts.	0.05% of the transport cost
Storage and custody contracts	Storage contracts and custody contracts.	0.1% of the storage or custody fee
Loan contracts signed between banks or other financial institutions borrowers	Not including interbank short-term loans on which interest is calculated daily. Receipts shall be used as a contract and stamp duty shall be paid as for a contract.	0.005% of the amount borrowed
Property insurance contracts	Property, liability, guarantee, and credit insurance contracts. Receipts shall act as a contract for which stamp duty must be paid.	0.1% of the insurance premium
Technology contracts	Technology development, transfer, consultancy and service contracts.	0.03% of the stated value
Documents of transfer of property rights	Documents of transfer of property titles, copyright, exclusive right of use of trademarks, patents and proprietary technology usage rights.	0.05% of the stated value
Business books of account	Books of account for recording capital and capital surplus.	0.025%

FARMLAND CONVERSION TAX

Farmland conversion tax is imposed on taxpayers that occupy cultivated land to build houses or engage in other non-agricultural construction. The farmland conversion tax is levied according to the area of the cultivated land occupied by the taxpayers. The tax rates range from RMB 5 to RMB 50 per square meter. Taxpayers are obligated to pay the farmland conversion tax within 30 days after the land administration department approves the land occupation.

TONNAGE TAX

On 1 July 2018, the Tonnage Tax Law of PRC was implemented. Tonnage tax is a tax levied on the use of navigational AIDS such as maritime AIDS. It is collected by the customs authorities and is calculated based on the net tonnage of the ship and the term of the tonnage license. The tax payable for tonnage tax is derived by multiplying the net tonnage of the ship by the applicable tax rate.

The taxpayer is liable for the tonnage tax on the date when the ship enters the port.

LAND VALUE-ADDED TAX

Gains on the sale of real property, net of development costs, are subject to the land value-added tax. Land value-added tax applies to all types of land, construction and immovable property, including commercial, industrial and residential sites. The current regulations provide for a deduction of qualifying financing expenses, related taxes, and administration and selling expenses, with prescribed caps for different situations. A super deduction equal to 20% of the combined property development and land purchase cost is available for real estate development companies. Land value-added tax is charged in four bands ranging from 30% to 60%, depending on the percentage of gain realised.

a) Calculation of Land value-added tax

Land value-added tax is calculated on the value-added gained by the entities or individuals through the assignment of state-owned land use rights, buildings and other facilities attached to the land.

Value added gained = Income derived (cash and/or other assets) – Deductible items

Land value-added tax payable = Value added gained x Applicable tax rate – Quick calculation deduction

Deductible items include:

- Cost of obtaining land use rights
- Cost of developing the land, including construction costs
- Marketing expenses, management expenses and financial expenses
- Taxes and dues relating to the transfer of state-owned land use rights, buildings and other facilities attached to the land.
- The assessed price for the transfer of old buildings
- Other deductions specified by the Ministry of Finance

b) Exemptions

Taxpayers are exempt from land value-added tax under the following circumstances:

- The value added amount of the ordinary residential buildings constructed and sold by the taxpayer for civil use is less than 20% of the deductible items.
- The land is acquired by the state due to mandatory state or municipal-planned construction requirements.
- Subject to the approval of the tax authorities, an individual is transferring his/her ordinary residential property due to a change of employment.
- The taxpayer had used the property as his/her primary residence for at least five years.

c) Tax rates

Value Added Amount	Tax Rate (%)	Quick Calculation Deduction
Value added amount ≤ 50% of deductible items	30	Not applicable
Value added amount > 50% of deductible items but ≤ 100% of deductible items	40	Deductible amount x 5%
Value added amount > 100% of deductible items but ≤ 200% of deductible items	50	Deductible amount x 15%
Value added amount > 200% of deductible items	60	Deductible amount x 35%

ANTI-AVOIDANCE PROVISIONS

The anti-avoidance provisions have been included in the enterprise income tax (EIT) law and apply to taxpayers who have entered into tax avoidance arrangements. These provisions are listed below:

- Transfer pricing rules;
- Controlled foreign corporations (CFC) rules;
- Thin capitalisation; and
- General anti-avoidance provision

The tax authorities are permitted to make reasonable adjustments within 10 years, from the tax year when the transaction occurred. Also, the taxpayers required to pay additional tax for the above-mentioned adjustments will also be levied an interest on the additional tax payable.

TRANSFER PRICING

The EIT laws provide a basis for the tax authorities to make special adjustments for transfer pricing. The related parties are required to comply with the arm's length principle in all inter-company businesses.

Compliance with transfer pricing documentation requirements in China

On 29 June 2016, SAT introduced stricter requirements for transparent information disclosure on related party transactions:

- Annual Related Party Transactions Reporting Forms, including Country-by-Country reporting.
- Three-layer documentation approach including master, local and special issue files.
- Legal obligation of enterprises that meet certain thresholds to prepare transfer pricing (TP) documentation.

Enterprises should stay updated with the latest TP regulatory changes in China and prepare appropriate TP documentation if they reach the regulatory thresholds to mitigate the risk of non-compliance. In addition, well-prepared TP documentation serves as a "first line of defence" that protects enterprises from penalties during TP audits. Furthermore, this allows enterprises to assess or reassess the reasonableness of their TP policies for managing potential TP risk in the country.

In contrast to the old TP documentation requirements, the key changes are:

- The Annual Related Party Transactions Reporting Forms (the 'New Forms') is in addition to the previous nine forms, increasing the total number of forms to 22. More detailed and transparent information disclosure is required. The New Forms also include the Country-by-Country reporting form ('CbC Form').
- Bulletin 42 introduces a three-layer documentation approach, including master, local, and special issue files, as opposed to the old TP regime that did not involve the master and special issue files. In addition, the local file must now include a value chain analysis as well as location-specific advantages ('LSAs').

Conditions that require preparation of a master file
An enterprise is required to prepare a master file for a fiscal year in Chinese if it meets any of the following thresholds:

- When the enterprise has cross-border related party transactions and its group has prepared a master file; or
- Related party transactions totalling over RMB1 billion during the year.

Conditions that require preparation of a local file
An enterprise is required to prepare a local file for a fiscal year in Chinese if it meets any of the following thresholds:

- Transfer of over RMB200 million (for toll manufacturing, the amount in customs records for imports and exports should be included) in tangible assets.
- Transfer of over RMB100 million in financial assets.
- Transfer of over RMB100 million in intangible assets.
- Other related party transactions totalling over RMB40 million.

An enterprise that engages in simple manufacturing activities, such as toll processing, contract manufacturing, simple distribution or contract R&D, and incurs a loss, is required to prepare a local file regardless of whether it reaches any of the thresholds listed above[1].

Conditions that require preparation of a special issue file
An enterprise is required to prepare a special issue file in Chinese if it meets any of the following thresholds:

- The related party's debt-to-equity ratio exceeds 2:1 for non-financial enterprises or 5:1 for financial enterprises; or
- Enterprise is engaged in a cost-sharing agreement.

Other considerations for documentation
<u>Exemption</u>
Enterprises that have only conducted related party transactions with domestic related party companies, or implemented an Advance Pricing Arrangement (APA), are exempt from preparing master, local and special issue files.

<u>Deadline for preparation</u>
The master file shall be prepared within 12 months after the date when the group's ultimate holding company's fiscal year ends.

The local and special issue files shall be prepared before 30 June of the year following when the related party transaction occurred.

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[1] *The last threshold was not stated in Bulletin 42. Instead, it was specified in State Taxation Administration Bulletin on Promulgation of the Administrative Regulation for Special Tax Audit Adjustment and Mutual Agreement Procedures ('Bulletin 6').*

Deadline for submission

Contemporaneous documentation shall be provided within 30 days of the tax authority's request.

Content of master file

Bulletin 42 states that the master file must disclose key global business information of the whole group to which the Chinese enterprise belongs, including the group's organisational structure, the group's business description (including inter-company transactions), intangibles, financing activities, as well as its financial and tax status.

Organisational structure

A chart illustrating the group's global organisational structure, shareholding structure and geographical location of all its business entities.

Group's business description

A description of the group's business, including information on their supply chain and geographical location of major markets, important intragroup service arrangements, value-creating contributions from each entity, functional changes due to business restructuring, risks or assets within the group, and reorganisations during the fiscal year.

Intangibles

- A description of overall strategies in relation to the development and utilisation of intangibles, determination of the ownership of intangibles, the group's transfer pricing policies relating to R&D and intangibles, as well as any transfer of interests of intangibles among related parties during the fiscal year.
- A list of the group's intangibles that have a significant impact on its transfer pricing policy, the ownership of such intangibles, and significant intangibles-related agreements between entities in the group.

Financing activities

A description of intragroup financing arrangements, the group's key financing arrangements with unrelated parties, entities in the group that provide central financing for the group, as well as the group's transfer pricing policies relating to financing arrangements between related parties.

Financial and tax status

- The group's annual consolidated financial statements for the latest fiscal year.
- A list of the group's existing unilateral APAs, bilateral APAs and other tax rulings relating to the allocation of income among countries, together with brief descriptions, names and locations of entities in the group that will prepare and submit the Country-by-Country report.

Contents of local file

Bulletin 42 states that the local file should provide an overview of the Chinese enterprise, detailed information of its related party relationships and transactions, information on the selection and application of transfer pricing methods, as well as a comparability analysis.

Overview of Chinese enterprise

(1) Organisational structure;

(2) Management structure;

(3) Industry description;

(4) Business strategy;

(5) Financial data for each type of business and product; and

(6) A description of reorganisations or transfers of intangibles that involve or affect the Chinese enterprise, and how such changes affect it.

Related party relationships

(1) Information on related parties;

(2) Information on income taxes that apply to related parties, including names of such taxes, tax rates and any preferential tax treatment; and

(3) Changes in related party relationships during the fiscal year.

Related party transactions

(1) Overview of related party transactions;

(2) Analysis of value chain;

(3) Outbound investment;

(4) Related party equity transfer;

(5) Related party services; and

(6) APAs in foreign countries and tax rulings directly relating to the enterprise's related party transactions.

Selection and application of transfer pricing methods

(1) Selection of the tested party and rationale for the selection;

2) Selection of transfer pricing method and rationale for the selection (regardless of the method selected, the enterprise must explain its contribution to the group's overall profit or residual profit);

3) Any assumptions and judgements made in the process of determining the arm's length prices or profits;

4) Application of reasonable transfer pricing methods and results of the comparability analysis to determine the arm's length prices or profits;

5) Other information to justify selection of the transfer pricing method; and

6) Analysis and conclusion on whether the transfer pricing policy of the related party transaction complied with the arm's length principle.

Comparability analysis

(1) Factors considered in performing the comparability analysis;

2) Information on the functions performed, risks assumed and assets employed by comparable enterprises;

3) Industry description;

4) The search method, source, selection criteria and rationale for the comparable information;

5) Information of selected internal or external comparable uncontrolled transactions and the financials of comparable enterprises; and

6) Adjustments made to the comparable data and rationale for these adjustments.

OVERSEAS REMITTANCE

a) Dividends

A 10% withholding tax on dividends paid to a non-resident company has been in effect since 2008.

Previously, dividends paid by a Chinese company with at least 25% of foreign participation were exempt from this tax obligation. It should be noted, however, that dividends paid out of pre-2008 earnings continue to be exempt from withholding tax. The 10% withholding tax may be reduced under an applicable tax treaty.

b) Interest

Interest is generally subject to a 10% withholding tax unless the rate is reduced under a tax treaty. Interest from certain loans made to the Chinese government or resident enterprises is exempt.

c) Royalties

The withholding tax rate on royalties and fees arising from the licensing of trademarks, copyrights and know-how and related technical service fees is generally 10%. Royalties are generally subject to a 6% VAT, except for payments made in connection with the use of technology, where an exemption may be granted.

d) Wage tax/social security contributions

The employer must withhold individual income tax on behalf of the employee and remit the relevant amount to the tax authorities.

The employer must contribute approximately 20% of basic payroll to the state-administered retirement scheme. The employer must also contribute to a medical insurance fund, maternity insurance, unemployment insurance and work-related injury insurance. The total employer contribution may be up to about 40% of the employee's base monthly salary, although the rates can vary across the country. The employee is required to contribute a certain percentage of his/her monthly salary to the above-mentioned funds, subject to a threshold set by the local authorities.

Foreign individuals legally working in China (including both foreign residents hired by the Chinese entities and those seconded from abroad to work in China) are required to participate in the same social security scheme as described above, unless an exemption is provided under an applicable bilateral social security totalisation agreement. However, enforcement may vary across different cities.

MANPOWER

MANDATORY PROCEDURES FOR HIRING STAFF IN CHINA

The process of hiring employees in China will usually follow the mandatory procedures below:

- Conclude labour contract with staff member
- Process new employment registration and apply for employment permit from the labour bureau
- Register staff social benefits information
- Process monthly salary payment before the agreed payday
- File individual income tax return every month with special deduction items
- Contribute to staff social benefit

SOCIAL BENEFITS IN CHINA

Employers are required by law to contribute both the company's and individual's components of social benefits. Social benefits in China include:

- Pension
- Unemployment
- Medical
- Work-related injury
- Maternity
- Housing fund

The social benefit contribution rates and contribution base vary across different Chinese cities. As an illustration, the social benefit contribution base and rates in Beijing and Shanghai are as follows:

	Beijing	Shanghai
Social benefit contribution base (new employees)	Full month gross salary for the first working month in the company	Full month gross salary for the first working month in the company
Social benefit contribution base (existing employees)	Employee's average salary the previous year	Employee's average salary the previous year
Maximum base in year 2022	RMB31,884	RMB34,188
Minimum base in year 2022	RMB5,869	RMB6,520
Employer's Contributions		
Pension	16%	16%
Medical Insurance	9.8%	10%
Unemployment Insurance	0.5%	0.5%
Injury Insurance	0.2–1.9%	0.2–1.9%
Housing Fund	12%	5–7%
Employee's Contributions		
Pension	8%	8%
Medical Insurance	2%+3	2%
Unemployment Insurance	0.5%	0.5%
Basic Housing Fund	12%	5–7%
Supplementary Housing Fund	-	1–5%

The contribution base amount is the employees' average monthly salary including all types of income such as basic salary before tax, overtime pay, allowance, bonus and any other salary pay items of each employee in the previous year. This is subject to a cap of three times the citizens' average salary in the city the previous year and the minimum base is defined as 60% of the citizens' average salary in the city.

Employees shall enjoy social insurance benefits under the following circumstances in accordance with the law:

- Retirement;
- Disability caused by work-related injury or occupational disease;
- Childbearing
- Illness;
- Unemployment; and

The conditions and standards for employees to enjoy social insurance benefits shall be stipulated by laws, rules and regulations.

HIRING EXPATRIATE STAFF IN CHINA

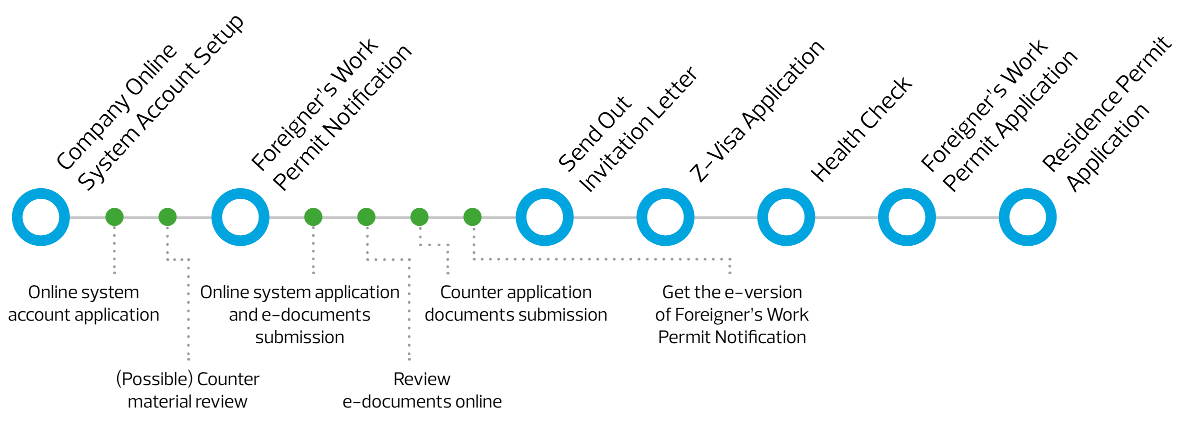
For expatriate staff to legally work in China, the company is required to apply for work permits and residence permits on their behalf. The expatriate staff is required to acquire an employment pass before commencing any labour contracts in China.

The general requirements for an expatriate employee working in China are as follows:

- Is older than 18 years of age;
- Has good health status;
- Has no criminal record;
- Has relevant working experience (at least two years);
- Has relevant educational background; and
- Has relevant qualifications

Categorised based on the expatriate staff's qualification and experience, the work permits are classified as Class A, Class B or Class C. Criteria for classification includes annual salary level, education, work experience, age, Mandarin proficiency and other aspects. Class A is for expert talent, while Class B is for standard expatriate professionals required by various industries in China. Class C is for temporary staff or non-professionals, whose approved headcount is strictly controlled.

The whole process, from setting up of company accounts to application of the foreign employee's residence permit, usually takes about two months, as shown below:



However, the detailed application requirements and timelines may differ according to the local requirements of each city's authorities.

Foreign nationals can also enter China for temporary business purposes with the visas below.

F VISA

The F Visa, also known as the business visa, was used previously by foreign nationals coming into China business but not employed by a Chinese entity. However, new regulations have limited the scope of this type of visa to non-commercial purposes only, such as cultural exchanges, visits and inspections. Therefore, it may no longer be suitable for businesses except within its limited range of permitted activities.

M VISA

Recent regulations have introduced a new visa for business travellers called the M Visa. This is suitable for foreigners coming to the country for business and trade purposes lasting no more than six months (180 days). Like the previous F Visa, M Visas are most suitable for foreigners who will:

- Spend less than six months in China during any calendar year
- Frequently enter and leave China
- Not hold a formal senior position at an entity based in China
- Not be paid by a company incorporated in China

M Visas can be renewed after six months at the discretion of the immigration bureau, with the risk of rejection rising as the foreigner continuously resides in China for a longer period of time.

CHINA LABOUR CONTRACT LAW

China's revised labour contract law has been in effect since 2008. A labour contract defines the rights, interests and obligations of employers and employees. The law states that a labour contract must be created when a labour relationship is to be established. In addition, conclusion and modification of a labour contract shall follow the principles of equality, voluntary participation and unanimity through consultation, and shall not conflict with Chinese laws, administrative rules and regulations. A labour contract, once concluded in accordance with the law, shall also possess legal binding force.

EXECUTION OF LABOUR CONTRACTS IN CHINA

KEY COMPONENTS OF A VALID EMPLOYMENT CONTRACT

- Name, domicile and legal representative or employer's main person in charge
- Name, residential address and number of the resident ID card or other valid identity document of the worker
- Terms of the labour contract
- Scope of work and place of work
- Working hours, rest and leave
- Labour compensation
- Social insurance
- Labour protection, working conditions and protection against occupational hazards
- Other issues required by laws and regulations to be included in the labour contract

IMPLEMENTING THE EMPLOYMENT CONTRACT

Employment contracts are categorised into fixed-term employment contracts, open-ended employment contracts and employment contracts that expire upon completion of a stipulated job.

According to the Labour Contract Law of the People's Republic of China, a written labour contract shall be created for the establishment of a labour relationship. Where a written labour contract is not created simultaneously with the establishment of a labour relationship, a written labour contract shall be created within one month from the date of commencement of work. If an employer fails to conclude a written employment contract with an employee within one year from the employee's first day of work, the employer and employee shall be deemed to have agreed to an open-ended employment contract.

If the contract is bilingual, the original version in Chinese shall prevail. The signature on the contract should be in Chinese.

TYPES OF EMPLOYMENT CONTRACTS

Fixed-term

An employment contract with a predetermined ending date as agreed upon by both the employer and employee.

Open-ended

An employment contract with no predetermined ending date as agreed upon by both the employer and employee.

Specific Work

An employment contract that expires upon the completion of a specific task as opposed to a specific length of time.

PROBATIONARY PERIODS

Contract Length	Probation Period
Contract term < 3 months	No probation
3 months ≤ Contract term < 1 year	Probation ≤ 1 month
1 year ≤ Contract term < 3 years	Probation ≤ 2 months
3 years ≤ Contract term ≤ Open-ended	Probation ≤ 6 months

- An employer may stipulate only one probation period for any given employee.
- No probation period may be specified in an employment contract with a term that expires upon completion of a certain job or an employment contract with a term of less than three months.
- According to the law, the wages of an employee on probation may not be less than the statutory minimum wage required of the place where the employer is located and less than 80% of the wage upon confirmation that is agreed upon in the employment contract.

TERMINATION

In practice, termination of employees in China can be more difficult than expected, considering the comparatively stringent regulations on terminating employment contracts in effect since 2008. Employers should follow the steps below to ensure compliance with all relevant statutes:

Step 1	Determine whether the termination is an early termination or not. If the employer chooses to terminate the employee prior to expiration of the first fixed-term contract, this is considered 'early termination' and certain additional requirements apply.
Step 2	In the case of early termination, the employer should attempt to negotiate an agreement with the employee, including the termination date, severance payment and any other necessary details. This is often the safer option even if there are grounds for unilateral termination.
Step 3	If the employer and employee are unable to come to a termination agreement, consider whether there are grounds to support immediate termination for cause or a 30-day notice period for termination without cause, keeping in mind the statutory obstacles to such forms of termination.

WORKING HOURS IN CHINA

There are three types of working hours in China:

- Standard working hours
  The employees shall work for no more than eight hours a day and no more than 40 hours a week on average. If they work beyond these standard durations, the overtime (OT) rates below shall apply:

OT on working days	150% of regular salary / OT hour
OT on weekends	200% of regular salary / OT hour
OT on public holidays	300% of regular salary / OT hour

- Flexible working hours
- Integrated working hours

Arrangements for both flexible working hours and integrated working hours require approval from the government. These two types of working hours allow the company to arrange non-standard working hours according to business needs with less OT payment costs.

PUBLIC HOLIDAYS AND LEAVE

The employer shall arrange holidays for employees in accordance with the law as follows:

Public Holiday	Date	Days
New Year	1 January	1
Chinese New Year (Chinese Lunar Calendar)	Lunar New Year's Eve (Second Day of the Second Lunar Month)	3
Qing Ming Day (Chinese Lunar Calendar)	Fifth Day of the Fourth Lunar Month	1
Labour Day (May Day)	1 May	1
Dragon Boat Festival (Chinese Lunar Calendar)	Fifth Day of the Fifth Lunar Month	1
Mid-Autumn Festival (Chinese Lunar Calendar)	15th Day of the Eighth Lunar Month	1
National Day	1–3 October	3

Employees who have worked continuously for one year or more shall be entitled to annual leave with full pay. The details are shown in the table below.

Work Period (Years)	Annual Leave (Days)
1 ≤ Work period < 10	5
10 ≤ Work period < 20	10
Work period ≥ 20	15

LABOUR DISPUTES

When there is a labour dispute between the employer and its employees, the parties concerned may apply for mediation or arbitration, take legal proceedings according to the law, or seek a settlement through consultation.

LEGAL RESPONSIBILITY

If the employer's actions and internal policies relating to HR management are found to be non-compliant with laws, rules and regulations, the labour bureau may issue the company a warning letter and order for correctional measures to be taken. If any harm has been caused to employees as a result of the non-compliance, the company shall be liable to provide compensation.

If the employer is found to have extended the working hours of employees in violation of Chinese labour law, the labour bureau and other related administrative departments may also issue it a warning letter, order it to make corrections, and possibly impose a fine.

The government may also order the employer to remunerate/compensate employees or make up for any financial losses they have suffered if the company violated employees' legitimate rights and interests in any of the following ways:

- The employer deducts wages or delays payment of wages to employees without reason.
- The employer refuses to pay employees overtime payment.
- The employer pays employees' wages below the local minimum wage standard.
- The employer fails to provide employees with severance pay in accordance with the labour contract law after termination of labour contracts.

According to the law, the employer shall bear responsibility for compensation if the execution of any invalid contracts is attributed to the company and resulted in damages to employees.

In addition, an employer that revokes labour contracts or purposely delays the execution of labour contracts in violation of the conditions specified in it may be ordered by the labour bureau and other related administrative departments to make corrections, and shall bear the responsibility of providing compensation if this resulted in damages to employees.

Employers that recruit employees whose labour contracts with their previous employer have not yet been terminated shall assume joint responsibility for compensation if the previous employer suffered economic losses as a result.

Employers that fail to pay social insurance premiums without reason may be ordered by the labour bureau and other related administrative departments to make the payment within a fixed period of time. If the company still fails to make payment after the time limit, an additional arrears payment may be demanded.

Employees who terminate labour contracts in violation of the conditions specified in labour contract law or violate confidentiality terms agreed upon in the labour contracts and consequently cause the employer to suffer economic losses shall be liable to provide compensation in accordance with the law.

ACCOUNTING

ACCOUNTING REGULATIONS AND STANDARDS

A unified accounting system was implemented for business enterprises with effect from 2002. Additional regulations were also implemented for financial institutions in 2002 and small enterprises in 2005. The Ministry of Finance has supplemented these regulations with the issuance of specific accounting standards designed to converge with International Financial Reporting Standards (IFRS) and accounting interpretations. Collectively, the regulations, standards, and interpretations are referred to as China GAAP.

The accounting regulations and standards required for non-listed companies are as follows:

- Accounting Standards for Business Enterprises (original and first revised versions effective from 1 July 1993 and 1 January 2007 respectively, with latest version effective since 23 July 2014)
- Accounting Regulations for Business Enterprises (effective 1 January 2001)
- Accounting Regulations for Financial Institutions (effective 1 January 2002)
- Accounting Regulations for Small Enterprises (original effective 1 January 2005, latest version effective since 1 January 2013)
- Basic Standard (original and first revised versions effective from 1 July 1993 and 1 January 2007 respectively, latest version effective since 23 July 2014)
- Events after Balance Sheet Dates (effective 1 January 1998, revised in 2003, latest version effective since 1 January 2007)
- Cash Flow Statement (original effective 1 January 1998, revised in 2001 and 2006, latest version effective since 1 January 2007)
- Changes in Accounting Policies, Accounting Estimates and Correction of Accounting Errors (original effective 1 January 1999, revised in 2001, latest version effective since 1 January 2007)
- Investments (original effective 1 January 1999, revised in 2001, latest version effective since 1 January 2007)
- Debt Restructuring (original effective 1 January 1999, revised in 2001, latest version effective since 1 January 2007)
- Contingencies (original effective 1 July 2000, revised version effective since 1 January 2007)
- Non-monetary Transactions (original effective 1 January 2000, revised in 2001, latest version effective since 1 January 2007)
- Leases (effective 1 January 2001, revised version effective since 1 January 2019)
- Borrowing Costs (original effective 1 January 2001, revised version effective since 1 January 2007)
- Fixed Assets (original effective 1 January 2001, revised version effective since 1 January 2007)
- Inventories (original effective 1 January 2001, revised version effective since 1 January 2007)

NEW ACCOUNTING STANDARDS

In February 2006, a basic standard and 38 new accounting standards were issued, supplemented by another 33 implementation notes and four interpretation notes. These standards and interpretation notes ('New GAAP') took effect on 1 January 2007 and are compulsory for public-listed companies, centrally managed state-owned enterprises, financial institutions, security investment funds and fund management companies. All large and medium-sized entities are required to adopt the New GAAP. Other companies, including foreign investment enterprises, are encouraged to adopt the New GAAP, but have the option to continue using the accounting regulations and standards mentioned in the preceding section.

The New GAAP underwent major reforms in July 2014, including a revision of the basic standard and five accounting standards, as well as the addition of three new accounting standards.

Additional major reforms occurred in 2017, including a revision of six accounting standards, as well as the addition of a new accounting standard. In addition, 6 interpretation notes were supplemented.

These latest changes are shown in bold below:

No.	Standard	No.	Standard
1	**Basic Standard (revised in 2014)**	**23**	**Financial Instruments: Recognition and Measurement (revised in 2017)**
2	**Inventories (revised in 2007)**	**24**	**Transfer of Financial Assets (revised in 2017)**
3	**Long Term Equity Investments (revised in 2014)**	**25**	**Hedging (revised in 2017)**
4	Investment Properties	26	Insurance Contracts
5	Property, Plant and Equipment	27	Reinsurance Contracts
6	Biological Assets	28	Extraction of Oil and Natural Gas
7	Intangible Assets	29	Changes in Accounting Policies and Estimates and Correction of Errors
8	**Exchange of Non-monetary Assets (revised in 2019)**	30	Events after the Balance Sheet Date
9	Impairment of Assets	**31**	**Presentation of Financial Statements (revised in 2014)**
10	**Employee Benefits (revised in 2014)**	32	Cash Flow Statements
11	Enterprise Pension Funds	33	Interim Financial Reporting
12	Share-based Payments	**34**	**Consolidated Financial Statements (revised in 2014)**
13	**Debt Restructuring (revised in 2019)**	35	Earnings Per Share
14	Contingencies	36	Segment Reporting
15	**Revenue (revised in 2017)**	37	Related Party Disclosures
16	Construction Contracts	**38**	**Financial Instruments: Presentation and Disclosures (revised in 2014 and further revised in 2017)**
17	**Government Grants (revised in 2017)**	39	First-time Adoption of Accounting Standards for Business Enterprises
18	Borrowing Costs	**40**	**Fair Value Measurements (newly added in 2014)**
19	Income Tax	**41**	**Joint Venture Arrangements (newly added in 2014)**
20	Foreign Currency Translations	**42**	**Disclosure of Interests in Other Entities (newly added in 2014)**
21	Business Combinations	**43**	**Non-current Assets and Disposal Groups Held for Sale and Discontinued Operations (newly added in 2017)**
22	**Leasing (revised in 2018)**		

Since the adoption of the New GAAP, the differences between IFRS and accounting standards in China have reduced significantly.

ACCOUNTING STANDARDS FOR SMALL AND MEDIUM-SIZED ENTERPRISES

The new accounting standards for small and medium-sized enterprises (SMEs) implemented in January 2013 replaced the old accounting regulations implemented in 2005. They present a simplified accounting framework for SMEs in order to reduce compliance costs and allow growing enterprises to focus on internal control and business strategy.

These accounting standards are not applicable for the following:

- Small enterprises whose stocks or bonds are listed publicly in the market for trading.
- Financial institutions or other small enterprises that provide services of a financial nature.
- Parent company and subsidiaries of a group

Additional regulations have been issued to establish the criteria for qualification as a small enterprise. The criteria are based on headcounts, revenues and total asset values of businesses in different industries:

Business	Headcount	Revenue (RMB million)	Total Asset Value (RMB million)
Agriculture, Forestry, Animal Husbandry and Fishery	Not Applicable	<5	Not Applicable
Industrial	<300	<20	Not Applicable
Construction	Not Applicable	<60	<50
Wholesale	<20	<50	Not Applicable
Retail	<50	<5	Not Applicable
Transportation	<300	<30	Not Applicable
Storage	<100	<10	Not Applicable
Postal	<300	<20	Not Applicable
Hotel and Food	<100	<20	Not Applicable
Catering	<100	<20	Not Applicable
Information Transmission	<100	<10	Not Applicable
Software and Information Technology	<100	<10	Not Applicable
Real Estate Development	Not Applicable	<10	<50
Property Management	<300	<10	Not Applicable
Leasing and Service	<100	Not Applicable	<80
Others	<100	Not Applicable	Not Applicable

The following are some major features or requirements when applying accounting standards for small enterprises compared with accounting standards for larger businesses:

- Only the Balance Sheet and Income Statements need to be presented. Cash flow statements and the statement of changes in equity are optional.
- For notes to the accounts, only significant accounting policies, accounting estimates and transactions for the financial period need to be disclosed.
- In accounting for tax, the tax payable method is adopted.
- Actual cost is used in accounting for inventory, while the retail and standard cost methods are permitted under accounting standards for larger businesses.
- Borrowing costs for specific purposes can be capitalised upon incurrence of a debt and need not be in line with the incurrence of capital expenditure.

In the event that the SME is expected to breach the criteria for qualification in the near future, it would be advisable to adopt the full China GAAP rather than the simplified version for SMEs to avoid the risk of non-compliance.

AUTHORISED REPRESENTATIVE TAX MANAGEMENT PROCEDURE

China's State Taxation Administration has implemented a tax management procedure that determines the scope of authorised representative information to be collected based on factors such as enterprise type and tax-related risks. It also allows the recognition and one-time collection of authorised representative information for multiple uses by the State Taxation Administration and local tax bureaus. The tax management procedure includes simplifying the submission of relevant supporting documents, optimising tax management processes, strengthening credit management, and guarding against various tax-related risks such as the receipt and issue of invoices by proxy.

Those handling tax affairs including legal representatives, persons in charge of finance, tax staff, tax agents, and other personnel authorised by legal representatives are subjected to the procedure.

The information on tax affairs handlers shall include the following:

- Names
- Identity certification
- Mobile phone numbers
- Photo information
- Other information as required

Identity certification refers to the original valid resident identity cards, temporary resident identity cards, identity certification of Chinese People's Liberation Army soldiers, identity certification of Chinese People's Armed Police, mainland travel permits for Hong Kong and Macao residents, mainland travel permits for Taiwan residents, passports of foreign citizens, and other identity certifications.

PRC ADMINISTRATIVE MEASURES FOR INVOICES

The present Administrative Measures of the People's Republic of China for Invoices ("Measures") were adopted by the State Council on 12 December 1993 and revised on 20 December 2010. The Implementation Rules for Invoice Management Measures of the People's Republic of China were promulgated by the State Taxation Administration (STA) on 28 December 1993 and revised on 27 December 2014. All entities and individuals that print, purchase, issue, obtain, keep, and cancel invoices within the territory of the People's Republic of China must observe these Measures.

Since its implementation on 1 May 2016, VAT has replaced BT (business tax) across all sectors. The administrative procedures for purchasing and upgrading VAT invoices are explained next.

TYPES OF VAT INVOICES

There are two types of VAT invoices in China—the normal VAT invoice and special VAT invoice. VAT invoices are suitable for general and small-scale VAT taxpayers. Only a company with a general VAT taxpayer certificate may obtain special VAT invoices and use them for VAT deduction purposes.

The company can apply for either paper VAT invoice or VAT e-invoice to meet the requirements from clients. The STA is pushing forward the use of fully digitalised e-invoices which is expected to be implemented nationwide in 2023.

In this publication, we will mainly cover the administrative procedures for the paper special VAT invoice.

SPECIAL VAT INVOICE PURCHASING AND UPGRADING PROCEDURES

Who can purchase special VAT invoices?

Only general VAT taxpayers can purchase special VAT invoices and companies should note the steps below to obtain the general VAT taxpayer certificate:

(1) Submit application forms with the company's U-key through the STA website

(2) Normally, STA verifies and approves application within three working days

The company can check the STA website to find out if its application is successful.

How to purchase special VAT invoices?

The company's appointee for handling tax affairs should complete verification of the types of VAT invoices through the STA website. Normally, the company can check the verification results through the STA website within three working days.

Once verification is complete, the tax authorities will provide a golden tax disk to the company. Thereafter, the appointee for handling tax affairs can apply for VAT invoices from STA.

Upgrading the special VAT invoice version

<u>Special VAT invoice version upgrading rules</u>

The upper limit amount of the original VAT invoice version is RMB 9,999.99 per invoice (excluding output VAT). And the upper limit issuance quantity is 50 VAT invoices a month. That means the company can only issue RMB 500,000 worth of invoices a month. Typically, if a company's monthly sales total is more than RMB 500,000, the company may apply to upgrade its special VAT invoice version. There are two kinds of upgrading—temporary and permanent. And the different versions of special VAT invoices are listed as follows:

- RMB 9,999.99 (Original Version 10K)
- RMB 99,999.99 (Version 100K)
- RMB 999,999.99 (Version 1M)
- RMB 9,999,999.99 (Version 10M)
- RMB 99,999,999.99 (Version 100M)

<u>Temporary upgrading</u>

A company may apply for a temporary upgrading of its special VAT invoice upper limit amount where the upgraded limit is effective for 10 days only. For example, a company whose original special VAT invoice upper limit amount is RMB 9,999.99 may apply for a temporary special VAT invoice with an upper limit of RMB 99,999,999.99 if its contract amount is above its original special VAT invoice upper limit.

Permanent upgrading

Certain conditions need to be met for each level of permanent upgrading of the special VAT invoice upper limit amount as shown below.

Version	Conditions
100K	The amount of each contract or sales revenue is consistently above RMB10,000 for two consecutive months. In addition, the accumulated revenue is more than the monthly revenue by 25%, and the monthly revenue is over RMB 300,000.
1M	The company's registered capital is over RMB 500,000 and sales revenue is consistently above RMB 100,000 per transaction for three consecutive months. In addition, the accumulated revenue is more than the monthly revenue by 30%, and the monthly revenue is over RMB4 million. The company should also have paid VAT and been rated A/B class for tax credit.
10M	The company's registered capital is over RMB 5 million and sales revenue is consistently above RMB 1 million per transaction for three consecutive months. In addition, the accumulated revenue is more than the monthly revenue by 40%, and the monthly revenue is over RMB 50 million. The company should also have paid VAT and been rated A/B class for tax credit.
100M	The company's registered capital is over RMB 50 million and sales revenue is consistently above RMB 10 million per transaction for three consecutive months. In addition, the accumulated revenue is more than the monthly revenue by 40%, and the monthly revenue is over RMB 500 million. The company should also have paid VAT and been rated A/B class for tax credit.

Procedures to temporarily or permanently upgrade special VAT invoice version

	For 100K & 1M Upgrading
Step 1	Submit the application on the STA website.
Step 2	The company will obtain approval from the STA within three to five working days. If the upgrade is recognised as temporary, the upgraded limit is effective for three months. If the upgrade is recognised as permanent, there is no time limit.
Step 3	Upgrade the golden tax disk after obtaining approval through the STA website.

	For 10M & 100M Upgrading
Step 1	Manually submit the required application documents for STA's review, including a statement of application, sales contract and other documents.
Step 2	Obtain STA's confirmation of the document review within 10 working days. (STA may require an interview with legal representatives).
Step 3	Submit the application on STA's website for approval. If the upgrade is recognised as temporary, the upgraded limit is effective for three months. If the upgrade is recognised as permanent, there is no time limit.
Step 4	Upgrade the golden tax disk after obtaining approval through the STA website.

Procedures to temporarily or permanently increase the special VAT invoice quantity

	Temporary Increase
Step 1	Submit the application on the STA website.
Step 2	Obtain approval from the STA website within three to five working days.
Step 3	Go to the STA office to pick up the approved number of special VAT invoices.

	Permanent Increase
Step 1	Submit the application on the STA website. A temporary increase for three consecutive months is required before application for a permanent increase is allowed.
Step 2	Obtain approval from the STA website within three to five working days.
Step 3	Go to the STA office to pick up the approved number of special VAT invoices.

Ongoing special VAT invoice application

The company can apply for special VAT invoices during the month when they run out of it, subject to it being within the upper limit allocated for each month. After the month-end closing, the company can only apply for new special VAT invoices after filing the previous month's VAT return before the 15th day of the current month.

INTELLECTUAL PROPERTY RIGHTS IN CHINA

CATEGORIES OF INTELLECTUAL PROPERTY RIGHTS (IPRS)

An intellectual property right ('IPR') in China is a term referring to a brand, invention, design or other kind of creation that a person or business has legal rights over. Almost all businesses own some form of IPR, which acts as a business asset.

Some of the most common forms of IPR in China are as follows:

- Copyright-protected written or published works such as books, songs, films, web content and artistic works.
- Patents, including those for inventions, utility models and designs. This protects commercial inventions, such as a new business product or process, and designs, such as drawings or computer models.
- Trademarks protect signs, symbols, logos, words or sounds that distinguish your products and services from those of your competitors.

LAWS AND REGULATIONS ON IPRS IN CHINA

Categories of IPR	Administrative Department	Relevant Laws & Regulations	Relevant Rules
Copyright	National Copyright Administration	• Copyright Law (Revised in 2020) • Implementation Regulations of the Copyright Law (Revised in 2013)	• If the author is a citizen: the term of protection is during the life of the author and 50 years after his /her death, expiring on 31 December of the 50th year after his/her death; in case of a cooperative work, it shall expire on 31 December of the 50th year after the death of the last author. • If the author is a noncitizen: the term of protection is 50 years, expiring on 31 December of the 50th year after the first publication of the work; However, if a work has not been published within 50 years after its creation, the Copyright Law shall no longer protect it.
Patent	China National Intellectual Property Administration	• Patent Law (Revised in 2020) • Implementation Regulations of the Patent Law (Revised in 2010)	• Invention patents grants exclusive rights to the owner of an invention for a maximum of 20 years, calculated from the date of application. • Utility model patents grant protection for a maximum of 10 years, calculated from the date of application. • Design patents grant protection for a maximum of 15 years, calculated from the date of application. • "First to file" principle, i.e. if two people apply for a patent on an identical invention, the first one who files the application will be awarded the patent.
Trademark	Trademark Office of China National Intellectual Property Administration	• Trademark Law (Revised in 2019) • Implementation Regulations of the Trademark Law (Revised in 2014)	• A trademark is valid for 10 years, after which it may be renewed indefinitely for every 10-year period.

TREATIES & RECIPROCAL AGREEMENTS

- The Berne Convention: Each member state recognises the copyright of authors from other member states in the same manner as they would the copyright of their own nationals.
- The Paris Convention: Any person from a signatory state can apply for a patent or trademark in any other signatory state, and would be given the same enforcement rights and status as a national of that country would be granted.
- The Madrid Protocol: This is a central system for obtaining a "bundle" of national trademark registrations in different jurisdictions, through a single application.

REGISTRATION OF IPRS IN CHINA

COPYRIGHT

Registration of copyright is not compulsory in order to receive copyright protection, though seeking redress for any violations can be difficult without prior registration.

PATENT

Foreign enterprises can appoint an agent authorised by the State Intellectual Property Office (SIPO) to handle their patent applications.

TRADEMARK

Foreign enterprises can appoint an authorised trademark agent to handle their applications for trademark registration.

HOW TO PROTECT IPRS IN CHINA

The protection of IPRs is overseen by the China National Intellectual Property Administration, which also handles disputes on IPRs. Disputes over trademarks are handled by the Trademark Office of China National Intellectual Property Administration.

Infringement of IPRs can be resolved through negotiations among the parties involved. If this fails, then the relevant parties may choose to proceed with administrative procedures or legal proceedings.

LISTING IN CHINA AND SINGAPORE

LISTING IN CHINA

Mainland China has three stock exchanges that are located in Shanghai ('SSE', opened in December 1990), Shenzhen ('SZSE', opened in July 1991) and Beijing ('BSE', opened in November 2021). All exchanges are governed by the China Securities Regulatory Commission ('CSRC').

MAINBOARD AND SME BOARD

The Mainboard is designed for big companies that intend to raise large amounts of public funds. Separately, the Small and Medium Enterprise Board ('SME Board') adopts the same listing requirements as the Mainboard, while targeting small and medium-sized companies. In February 2021, CSRC approved the merger of the Main Board and SME Board of SZSE. In April, approved by CSRC, the main board and SME board of SZSE merged, and the total market value after the merger exceeded 20 trillion.

SECOND BOARD

In 2009, the Growth Enterprise Board ('Second Board') was launched in the Shenzhen Stock Exchange. It serves as a new direct financing platform for innovative companies.

NEW THIRD BOARD

Inaugurated on 16 January 2013, the National Equities Exchange and Quotations ('NEEQ') system, also known as the New Third Board, serves as China's 'over the counter' ('OTC') market. Trading takes place on an OTC basis, which means transactions happen directly between participants rather than via an exchange. Compared with the Mainboard and Second Board, it attracts many start-ups.

REQUIREMENTS AND PROCEDURES FOR DIFFERENT MARKETS IN CHINA

	Mainboard & SME Board	Second Board	New Third Board
Listing venues	Mainboard (SSE & SZSE) SME Board (SZSE)	SZSE	NEEQ BSE (The issuer is an innovative tier listed company that has been continuously listed on NEEQ for 12 months)
Listing qualification	Securities issued to the public	Securities issued to the public	Non-listed company approved by CSRC
Number of shareholders	≤ 200	≤ 200	No restrictions
Track record	Three years	Three years	Two years
Total share capital	Market capitalisation no less than RMB50 million	Market capitalisation no less than RMB30 million	No restrictions
Quantitative criteria	(1) Positive net profit and cumulative profits for the last three fiscal years exceeding RMB30 million; (2) Cumulative cash flows for the last three fiscal years derived from operations exceeding RMB50 million or cumulative revenue for the last three fiscal years exceeding RMB300 million; (3) Pre-listing capital is no less than RMB30 million; (4) Company did not suffer any unrecovered losses at the end of its most recent fiscal period; and (5) The proportion of its intangible assets (deducting land use right, water farming right, mining right and other rights) as at the end of its most recent fiscal period does not exceed 20% of net assets.	(1) Has generated profits for the latest two consecutive years, with a cumulative net profit not less than RMB50 million; or (2) Estimated market capitalisation is not less than RMB1 billion, the net profit of the most recent year is positive and operating income is not less than RMB100 million; or (3) Estimated market capitalisation is not less than RMB5 billion, and the operating income is not less than RMB300 million.	(1) Has the ability to make profits continuously (2) A joint stock company applying for a listing on NEEQ is not subject to restrictions on the nature of ownership of a shareholder. (3) If it is a limited liability company, it must be fully transformed into a joint stock company by converting the shares at the original net book value of assets.

LISTING IN SINGAPORE

Companies are attracted to list on the Singapore Exchange ('SGX') for various reasons. SGX is recognised as a global financial hub with over S$3.3 trillion of assets under management. SGX is also a truly international exchange, with foreign firms accounting for about 40% of listed companies.

Companies may choose to list either on the SGX Mainboard or Catalist if they meet the respective admission criteria. The Mainboard caters to established companies. To qualify for listing on the Mainboard, a company must have an operating track record and meet either one of the two profit tests or the market capitalisation test. Besides these quantitative criteria, there are also qualitative requirements that the company must meet, such as appointing directors with appropriate experience in managing the business, and appointing at least two independent non-executive directors who are resident in Singapore.

On the other hand, the Catalist caters to fast-growing companies. While there is no minimum quantitative admission criteria, a company seeking admission on the Catalist must engage an approved sponsor who will assess whether it is suitable for listing. The qualitative requirements for the Mainboard mentioned earlier are also applicable when listing on the Catalist with the exception that there is minimum of 1 Singapore resident independent director for foreign companies.

Companies typically take about six to nine months to prepare for the submission of their listing application. After submission, the application and review process for a Mainboard listing typically takes more than six to eight weeks. However, listing on the Catalist generally takes a shorter period of time.

Whether the company chooses to list on the Mainboard or the Catalist, it will need the help of various professionals, such as an issue manager for the Mainboard or a sponsor for the Catalist, and legal advisors. Reporting accountants and independent auditors are also engaged to audit the accounts of the company as presented in the accountants' report and highlight any weaknesses in the internal controls of the company. Some companies also engage public relations consultants to assist in increasing investor awareness of the company.

Listing on the Mainboard is generally more costly than listing on the Catalist in terms of the Initial Listing Fee and Annual Listing Fee. However, companies listed on the Catalist must additionally retain a continuing sponsor and pay an annual sponsorship fee for as long as they are listed.

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