



Setting up a local office in China How to register a WFOE (wholly foreign owned enterprise)

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China: the country of golden business opportunities

Some people might say that economic growth declined which resulted in less business, however facts illustrate the opposite. Due to among other things the Chinese government's latest 10th Five Year Plan, and the establishment, support of Free Economic Trade Zones, and the government's support of foreign technologies, opportunities arise in China for foreign companies. There are several ways to encounter with China in order to do business. If you however, want to truly dive in and grasp all opportunities to the fullest, it might be convenient to invest in a local establishment.

There are two ways to invest in China: legal and non-legal entities. The first category involves Wholly Foreign-Owned Enterprises (WFOE), Equity Joint Ventures (EJV), Cooperative Joint Ventures (CJV) and Joint stock Companies (JSC). The latter one includes representative offices, branches and CJVs.

WFOE

For foreigners WFOE is most commonly used. By establishing this entity, the company will maintain complete management control since a Chinese partner is not required, intellectual properties are better protected and a company will be able to make greater use of Renminbi (RMB) to pay for business expenses and to issue local invoices compared to other entities. In addition, a WFOE can employ local staff directly without the need to hire agencies for employment services.

As for management, a board of directors or a managing director must be established for the new WFOE. Furthermore, the company needs to appoint an independent supervisor. The articles of association must include among other things a

description concerning the management structure, specific tasks and duties of the management. Before 1 March 2014 there was a capital requirement connected to this type of entity, however from this date on requirements were eliminated. Nevertheless, there are some exceptions in place for specified industries such as banking and insurance. Capital can be contributed in cash or in kind. In kind capital includes for instance machinery & equipment, know how, and industrial property rights.

Corporate income tax

Once established a local office in China, all generated income connected to this establishment will be subject to Chinese tax. There are several tax rates

This report is produced by Dutch Sino Business Promotions. DSBP is a consultancy company with headquarters in Rotterdam, offering consultancy, business support and matchmaking services to Dutch organisations doing business in China and vice versa.

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present in China. The normal corporate income tax rate accounts for 25%, however there are exceptional situations in which other rates apply. Special rates account for 20% (for instance applied to Small size companies) or 10% if certain requirements are met, certain regions in China process different rates to encourage business (rate accounts for 15%), and lastly for High and New Technology Enterprises income tax rate accounts for 15%.

WFOE set-up

Before defining the specific type of WFOE, the investor first needs to determine what will be the business scope. Secondly, it is important to check the industry restrictions. Once clarified these restrictions, the investor can think of which WFOE type to choose.

Figure: WFOE-type selection process



There are three distinctive WFOE set-ups:

- Consulting WFOE
- Trading WFOE
- Manufacturing WFOE

The first WFOE's core business is to provide services to third parties. The second one's core business focuses on import and export activities and domestic distribution. In this type of WFOE different business activities can be combined such as providing services and assembling. The third one refers to companies active in manufacturing industries such as machine manufacturing, energy, building materials and construction.

After the entity decision, there are four different steps during the set-up procedure accompanied with various requirements and a number of documents.

- Company name reservation registration
- Proof of filing for foreign investment enterprises
- Business registration certificate
- Registration at public security bureau, and stamp

In addition, this process requires different costs such as for Name Approval (about RMB 5.000), Business License (about RMB 6.000) and Registration at Public Security and Stamp Carving (about RMB 1.000).

Are you interested in establishing a local office in China or would you like to receive more detailed information regarding the process? Contact us by mail at: dsbp@dutchsino.com or by phone on +31 (0) 10 310 08 29.

