

Tax

The People's Republic of China

Tax and Regulatory Solutions for Foreign Investors



Our Presence

Our Presence

PricewaterhouseCoopers has approximately 146,000 partners and staff in 13 offices throughout mainland China, Hong Kong, Singapore and Macau. Our China Tax Services group comprises more than 1,250 client-service professionals and over 70 partners and directors – committed to surpassing client expectations.

We have been advising foreign companies investing in China since 1979. Today, amongst the accounting and legal firms, we have the largest number of full-time China tax partners and directors. In addition to local professionals recruited in the mainland, many partners and managers in our team come from countries such as the United States, Japan, Germany, United Kingdom and others, which have significant investments in China.

Internationally acclaimed professional tax firm

PricewaterhouseCoopers has been named Asia Tax Firm of the Year and China Tax Firm of the Year for both 2006 and 2007. Other similar awards previously won by us include the Asian Transfer Pricing Firm and China Transfer Pricing Firm. These awards recognise the depth of our specialised resources and experience in serving our clients' needs.

We are very proud that for 11 out of the last 12 years, PricewaterhouseCoopers ranks first in the annual survey conducted by International Tax Review among the leading professional services firms in China Tax.

Our Locations



Contact Us

Central China (including Shanghai, Chongqing, Suzhou and Xi'an)

Shanghai

11/F, PricewaterhouseCoopers Center, 202 Hu Bin Road, Shanghai 200021

中国上海湖滨路202号，普华永道中心11楼，邮政编码 200021

Tony Kwan (Regional Tax Leader) +86 (21) 2323 2515 tony.kwan@cn.pwc.com

Chongqing

Room 1905, 19/F, Metropolitan Tower, 68 Zou Rong Road, Chongqing 400010

中国重庆市渝中区邹容路68号，大都会商厦19楼1905室，邮政编码 400010

Tony Kwan +86 (21) 2323 2515 tony.kwan@cn.pwc.com

Suzhou

Room 1501, Genway Tower, 188 Wang Dun Road, Suzhou Industrial Park, Suzhou 215028

中国苏州市，苏州工业园区旺墩路188号，建屋大厦1501室，邮政编码 215028

Linjun Shen +86 (21) 2323 3060 linjun.shen@cn.pwc.com

Xi'an

Room 728, Zhongda International Mansion, 30 Nanda Street, Xi'an 710002

中国西安市南大街30号，中大国际大厦728室，邮政编码 710002

Elton Huang +86 (21) 2323 3029 elton.huang@cn.pwc.com

Tax Structuring

Alan Yam, Shanghai +86 (21) 2323 2518 alan.yam@cn.pwc.com

Amy Cai, Shanghai +86 (21) 2323 3698 amy.cai@cn.pwc.com

Elton Huang, Shanghai +86 (21) 2323 3029 elton.huang@cn.pwc.com

Transfer Pricing

Spencer Chong, Shanghai (Transfer Pricing Leader) +86 (21) 2323 2580 spencer.chong@cn.pwc.com

Jeff Yuan, Shanghai +86 (21) 2323 3495 jeff.yuan@cn.pwc.com

Julian Hine, Shanghai +86 (21) 2323 2332 julian.hine@cn.pwc.com

Corporate Tax Compliance

Matthew Wong, Shanghai +86 (21) 2323 3052 matthew.mf.wong@cn.pwc.com

Linjun Shen, Shanghai +86 (21) 2323 3060 linjun.shen@cn.pwc.com

M&A Tax Services

Gary Chan, Shanghai +86 (21) 2323 3331 gary.chan@cn.pwc.com

Peter Ng, Shanghai +86 (21) 2323 1828 peter.ng@cn.pwc.com

Human Resources Services

Stacy Kwok, Shanghai	+86 (21) 2323 2772	stacy.kwok@cn.pwc.com
David Cullen, Shanghai	+86 (21) 2323 3035	david.cullen@cn.pwc.com
Mark Gilbraith, Shanghai	+86 (21) 2323 2898	mark.gilbraith@cn.pwc.com

Company Formation and Regulatory Advisory Services

Linjun Shen, Shanghai	+86 (21) 2323 3060	linjun.shen@cn.pwc.com
-----------------------	--------------------	------------------------

Customs and Trade

John Robinson, Shanghai	+86 (21) 2323 3599	john.p.robinson@cn.pwc.com
Damon Paling, Shanghai	+86 (21) 2323 2877	damon.ross.paling@cn.pwc.com

Payroll & Accounting

Billy Hsieh, Shanghai	+86 (21) 2323 3013	billy.hsieh@cn.pwc.com
-----------------------	--------------------	------------------------

Indirect Taxes

Robert Li, Shanghai	+86 (21) 2323 2596	robert.li@cn.pwc.com
---------------------	--------------------	----------------------

Foreign Contractors' Tax Services

Betty Ko, Shanghai	+86 (21) 2323 3380	betty.ko@cn.pwc.com
--------------------	--------------------	---------------------

US Tax Desk

Donald Compton, Shanghai	+86 (21) 2323 2880	donald.compton@cn.pwc.com
Terry Tam, Shanghai	+86 (21) 2323 1555	terry.sy.tam@cn.pwc.com

German and European Tax Desk

Alan Yam, Shanghai	+86 (21) 2323 2518	alan.yam@cn.pwc.com
Claus Schuermann, Shanghai	+86 (21) 2323 2372	claus.wp.schuermann@cn.pwc.com

Northern China (including Beijing, Dalian, Qingdao and Tianjin)

Beijing

26/F Office Tower A, Beijing Fortune Plaza, 23 Dongsanhuan Zhong Road Chaoyang District, Beijing 100020
中国北京市，朝阳区东三环中路7号，北京财富中心写字楼A座26楼，邮政编码 100020

Edward Shum (Regional Tax Leader) +86 (10) 6533 2866 edward.shum@cn.pwc.com

Dalian

8/F Senmao Building, 147 Zhongshan Road, Xigang District, Dalian 116011
中国大连市西岗区中山路147号，森茂大厦8楼，邮政编码 116011

Edward Shum +86 (10) 6533 2866 edward.shum@cn.pwc.com

Qingdao

4601 Qingdao International Finance Center, 59 Hong Kong Zhong Road, Qingdao 266071
中国青岛市，香港中路59号，青岛国际金融中心4601室，邮政编码 266071

Steven Wong +86 (10) 6533 3113 steven.wong@cn.pwc.com

Tianjin

17/F Exchange Office Tower One, 189 Nan Jing Road, Heping District, Tianjin 300051
中国天津市和平区，南京路189号，津汇广场1号楼17楼，邮政编码 300051

Alan Wu +86 (10) 6533 2889 alan.wu@cn.pwc.com

Tax Structuring

Edward Shum, Beijing +86 (10) 6533 2866 edward.shum@cn.pwc.com

Edwin Wong, Beijing +86 (10) 6533 2100 edwin.wong@cn.pwc.com

Iris Pang, Beijing +86 (10) 6533 3110 iris.pang@cn.pwc.com

Transfer Pricing

Qisheng Yu, Beijing +86 (10) 6533 3117 qisheng.yu@cn.pwc.com

Winnie Di, Beijing +86 (10) 6533 2805 winnie.di@cn.pwc.com

Corporate Tax Compliance

Kelvin Lee, Beijing +86 (10) 6533 3068 kelvin.lee@cn.pwc.com

Rex Chan, Beijing +86 (10) 6533 2022 rex.c.chan@cn.pwc.com

M&A Tax Services

Howard Yu, Beijing +86 (10) 6533 2007 howard.l.yu@cn.pwc.com

Qiannan Lu, Beijing +86 (10) 6533 3181 qiannan.lu@cn.pwc.com

Human Resources Services

Edmund Yang, Beijing	+86 (10) 6533 2812	edmund.yang@cn.pwc.com
Rebecca Lai, Beijing	+86 (10) 6533 3065	rebecca.lai@cn.pwc.com
Roger Ng, Beijing	+86 (10) 6533 3108	roger.fm.ng@cn.pwc.com

Company Formation and Regulatory Advisory Services

Anthea Wong, Hong Kong	+852 2289 3352	anthea.wong@hk.pwc.com
Bo Yu, Beijing	+86 (10) 6533 3206	bo.yu@cn.pwc.com

Customs and Trade

Susan Ju, Hong Kong	+852 2289 3319	susan.ju@hk.pwc.com
---------------------	----------------	---------------------

Payroll & Accounting

Steven Wong, Beijing	+86 (10) 6533 3113	steven.wong@cn.pwc.com
----------------------	--------------------	------------------------

Indirect Taxes

Alan Wu, Beijing	+86 (10) 6533 2889	alan.wu@cn.pwc.com
------------------	--------------------	--------------------

Foreign Contractors' Tax Services

Paul Qu, Beijing	+86 (10) 6533 3118	paul.qu@cn.pwc.com
------------------	--------------------	--------------------

German and European Tax Desk

Edward Shum, Beijing	+86 (10) 6533 2866	edward.shum@cn.pwc.com
Dirk Bongers, Beijing	+86 (10) 6533 3316	dirk.bongers@cn.pwc.com

Southern China (including Hong Kong, Guangzhou and Shenzhen)

Hong Kong

21/F Edinburgh Tower, The Landmark, 15 Queen's Road, Central, Hong Kong SAR

香港中环皇后大道中十五号，置地广场，公爵大厦廿一楼

Charles Lee (Regional Tax Leader) +86 (755) 8261 8899 charles.lee@cn.pwc.com

Guangzhou

25/F Center Plaza, 161 Lin He Xi Road, Guangzhou 510620

中国广州市，林和西路161号中泰国际广场25楼，邮政编码 510620

Charles Leung +86 (20) 3819 2128 cw.leung@cn.pwc.com

Shenzhen

38/F, Shun Hing Square, Di Wang Commerical Centre, 5002 Shennan Road East, Shenzhen 518008

中国深圳市深南东路5002号，信兴广场地王商业中心38楼，邮政编码 518008

Charles Lee +86 (755) 8261 8899 charles.lee@cn.pwc.com

Tax Structuring

Joyce Law, Hong Kong +852 2289 5621 joyce.cy.law@hk.pwc.com

Charles Lee, Shenzhen +86 (755) 8261 8899 charles.lee@cn.pwc.com

Transfer Pricing

Rhett Liu, Hong Kong +852 2289 5619 rhett.k.liu@hk.pwc.com

Cecilia Lee, Hong Kong +852 2289 5690 cecilia.sk.lee@hk.pwc.com

Corporate Tax Compliance

Janet Xu, Guangzhou +86 (20) 3819 2193 janet.xu@cn.pwc.com

Catherine Tsang, Shenzhen +86 (755) 8261 8383 catherine.tsang@cn.pwc.com

M&A Tax Services

Danny Po, Hong Kong +852 2289 3097 danny.po@hk.pwc.com

Jeremy Ngai, Hong Kong +852 2289 5616 jeremy.cm.ngai@hk.pwc.com

Human Resources Services

Mandy Kwok, Hong Kong +852 2289 3900 mandy.kwok@hk.pwc.com

Jacky Chu, Hong Kong +852 2289 5509 jacky.chu@hk.pwc.com

Company Formation Services and Regulatory Advisory Services

Anthea Wong, Hong Kong +852 2289 3352 anthea.wong@hk.pwc.com

Customs and Trade

Colbert Lam, Hong Kong +852 2289 3323 colbert.ky.lam@hk.pwc.com

US Tax Desk

Anthony Tong, Hong Kong +852 2289 3939 anthony.tong@hk.pwc.com

Singapore

8 Cross Street, #17-00, PwC Building, Singapore 048424

China Tax Services

Lennon Lee, Singapore +65 6236 3728 lennon.kl.lee@sg.pwc.com

Iris Pang, Beijing +86 (10) 6533 3110 iris.pang@cn.pwc.com

Our Solutions to Your Tax and Business Issues in China

At PricewaterhouseCoopers, we realise that our clients in China are faced with fast changing tax regulations and challenging business environment. Our clients increasingly need highly focused, top-level expertise in solving their complex tax and business issues in China.

To provide quality services, our tax professionals are equipped with up-to-date and practical tax and regulatory knowledge about operating in China. In addition, our various specialist teams including Transfer Pricing, M&A tax, International Assignments, and Indirect Taxes provide clients with value-adding assistance in these important areas. With our knowledge accumulated through more than 25 years of experience in China, we have built up strong expertise and a good grasp of the business issues that drive our clients' businesses across all industries.

Our solutions are tailored to add value. We describe some of our solutions in this booklet. If you would like further information on these and other areas of our services, please contact your regular PricewaterhouseCoopers contacts or the specialists listed on the "Contact Us" section.

Our Tax and Regulatory Solutions include:

	Page
Tax Structuring Services	
Corporate Restructuring	1
Customs and Trade	2
Distribution Strategies	3
Market Entry Strategy	4
Mergers and Acquisitions - Transactions	5
Indirect Taxes	6
Structuring of Investment and Financing	7
Use of PRC Holding Companies	8
Transfer Pricing	9
Tax and Regulatory Compliance Services	
Corporate Tax Compliance	11
Establishment of Representative Offices, Wholly Foreign-Owned Enterprises and PRC branches	12
Accounting and Payroll	13
Foreign Contractors	14
Handling Tax Audits	15
Health check of PRC Operations	16
Human Resources Services	
Human Resource Healthcheck	18
People Strategy and Human Resource Management	19
PRC Individual Income Tax Planning and Compliance	20

Tax Structuring Services

Corporate Restructuring

The Issues

More and more foreign investors are reviewing ways to streamline their mainland legal structures and operational models. We are seeing significant increase in internal group restructuring involving China entities and China operations. Some corporate groups are realigning by lines of business rather than by geography. Many are rationalising their China operations and are merging two or more affiliates or liquidating affiliates to achieve business synergies.

A corporate reorganisation is complex in China and foreign investors need to be mindful of various common issues including:

- What are the restructuring options, e.g. asset or equity restructuring, to achieve business objectives with minimal tax costs?
- Whether the transactions may qualify for tax free treatment in China and how to attain such treatments with certainty?
- What are the approval requirements and timeline needed to meet corporate deadlines?
- Could business tax or value added tax be applicable on such restructuring?

The Solutions

Our structuring specialists have advised many clients on share transfers, transfers of businesses, mergers, divisions, reorganisations of the capital structure of enterprises, “donations” from shareholders, and liquidations. We also provided valuable input to the State Administration of Taxation in the development of its guidelines for corporate reorganisations.

Our services include:

- Providing comprehensive tax and regulatory advice on all types of corporate reorganisation and to recommend a tax-effective approach to structuring the corporate reorganisation
- Assisting you by project-managing and implementing the entire corporate reorganisation project
- Helping you with obtaining regulatory approvals, review documentation, revise registrations with various authorities, coordinate valuations, and obtain confirmations of tax issues from the tax bureaus

To make enquiry of this service, please contact your usual client service teams or any one of the contacts on the front of the brochure.

The Issues

Cross border transactions tend to be the most difficult and in China this is doubly so. As a consequence, companies face a significant challenge when looking to get their products to market with speed and certainty. A complex and bureaucratic customs clearance environment, combined with varying international trade compliance regulations, local practices, and the lack of transparency in interpretation of the rules, creates levels of risk and uncertainty for companies who wish to invest in and trade with China.

To manage these risks and to remain competitive, companies need to focus more effectively on customs, and trade compliance, and process optimisation in their supply chain. Common issues include:

- Timely access to customs updates, changes to rules and regulations and other critical information
- Leveraging Free Trade Agreements (“FTAs”) that China has entered into which may reduce or eliminate import duties
- Minimising import duty and VAT liabilities by adopting the most advanced bonded manufacturing business models or using special zones
- Being confident of passing a customs audit by the China Customs authorities
- Ensuring full compliance with the extensive laws & regulations relating to import, export, use or disposal of both tangible and intangible high technology or “sensitive” goods where the penalties for violations can be severe and apply to both entity & business leaders alike

Typically, in many companies, responsibility for these functions is either unclear or shared between dispersed departments such as finance, legal, operations, or supply chain, etc. It is for this reason that such costs often remain hidden and unknown and the risks remain unrecognised until something serious goes wrong.

The Solutions

Being the largest and longest established customs and trade practice in China, we can help your company gain a better understanding and control of all your import and export savings opportunities and compliance needs. Our services include:

- Analysing how effective and efficient your current practices and processes are, where improvements could and should be made, the level and range of risk you face and how well this is monitored or controlled
- Identifying potential opportunities for cost savings through FTAs, processing trade, tariff classification, use of bonded zones and import value reductions
- Advising you on how best to deal with customs audits and how to get the most out of a reforming customs authority post WTO
- Assessing the trade compliance requirements in China applicable to your high technology or “sensitive” products and, establishing the necessary Internal Control Plan (ICP), Export Management System (EMS) or Compliance Control Plan (CCP) to effectively guarantee continuity of your chosen operations in China

For more details on this service, please contact your usual client service teams or the following specialists:

Lead Partner

John Robinson, Shanghai +86 (21) 2323 3599 john.p.robinson@cn.pwc.com

Central China

Damon Paling, Shanghai +86 (21) 2323 2877 damon.ross.paling@cn.pwc.com

Northern China

Susan Ju, Hong Kong +852 2289 3319 susan.ju@hk.pwc.com

Southern China

Colbert Lam, Hong Kong +852 2289 3323 colbert.ky.lam@hk.pwc.com

Distribution Strategies

The Issues

China has fully liberalised her trading and distribution sector for foreign investment since 11 December 2004. Foreign investors can now enter China's distribution sector by setting up wholly-owned Foreign Invested Commercial Enterprises (FICEs) to engage in a wide range of trading and distribution activities, including wholesale, retail, commission agency services, import, export and related auxiliary services. In general, the FICE structure is not subject to any special geographic restriction or special pre-requisites for setting up.

Under a more liberalised framework, foreign investors are faced with a new set of issues, as follows:

- How it may consider the use of FICE to formulate a long-term distribution strategy that can enhance sustainable growth and market penetration?
- For the existing investors, how could they restructure their existing business and legal entity models, such as representative offices, service companies, free trade zone companies, etc.
- How to manage the transfer of business and the whole process of migration from a tax and regulatory perspectives?
- How they may use FICE to optimise China income tax and turnover taxes?

- How should the transfer pricing model be aligned in the new business model?
- Should operations in other China cities be formed as a branch or a separate FICE?

The Solutions

Our distribution specialists have extensive hands-on experience of assisting foreign investors from various industries to devise and implement distribution strategies in China. Our services include:

- Advise on legally feasible and tax efficient China distribution and trading structures that meet your business objectives
- Advise you on the latest establishment requirements and approval channels for general products as well as special products such as automobiles, pharmaceuticals, medical devices, etc.
- Provide one-stop services that combine tax planning into your distribution strategies
- Provide full implementation services to ensure your structure is successfully implemented to meet your time requirements and business needs

To make enquiry of this service, please feel free to contact your usual client service teams or the following specialist:

Central China

Stephens Lee, Shanghai

+86 (21) 2323 2611

stephens.lee@cn.pwc.com

Southern China

Anthea Wong, Hong Kong

+852 2289 3352

anthea.wong@hk.pwc.com

Market Entry Strategy

The Issues

A foreign company faces a maze of complex laws and ever-changing regulations when it tries to put together an entry strategy and business structures for the China market. Relevant issues include:

- Which legal vehicle shall be used in China to achieve the business objectives?
- Does the multi-national company need to have manufacturing facilities on the ground in China to realise the domestic market potential? If so, what investment vehicle is the most appropriate?
- Should it be a joint venture or a wholly-owned enterprise? Will the group do its own distribution in China?
- Should the distribution be in the form of a standalone Foreign Invested Commercial Enterprise or part of an existing legal entity in China?
- How shall business presence in different cities be structured and managed for proper compliance?
- How should the supply chain be structured and managed for optimal business and tax results?

The Solutions

For over twenty years we have been assisting companies to develop an entry strategy and business structures for China. Our services include:

- Provide comprehensive study on their industry in China and to provide suggestions on possible scenarios of their legal entity and operating models in order to achieve their business needs
- Provide assistance on location study to choose an operationally efficient and tax efficient location
- Full implementation support including setting up their legal entity structures in China including any offshore holding companies. To help navigate application complexities to attain approvals, we have established a good network and working relationship with all relevant government authorities at the central and local levels
- Provide on the ground support to help navigate local requirements with all relevant government authorities on an on-going basis, secure preferential tax treatments, and others

To make enquiry of this service, please contact your usual client service teams or any one of the contacts on the front of the brochure.

Mergers and Acquisitions – Transactions

The Issues

It is increasingly common for foreign investors to acquire domestic enterprises including state owned enterprises and private enterprises.

China has a complex tax and regulatory regime. Targets operating in different industries have varying profile of tax risks. Private enterprises are also likely to be exposed to different level of risks than state owned companies. In all cases, it is advisable for foreign investors to arrange a proper due diligence review of the target business or enterprise to assess the business risks and tax exposures. Common tax due diligence issues include:

- Non-compliance with tax and customs regulations
- Uncertainty over entitlement to tax preferences
- Informal arrangements or agreements with local tax authorities on tax incentives
- Transfer pricing exposures
- Noncompliance with tax filings, invoice management and foreign exchange control rules

In our experience, the results of a due diligence review are important to ensure the necessary risks or adjustments are reflected in the purchase price and deal structuring or that sufficient warranties and indemnities are negotiated with the vendor. Further, once the acquisition is completed, the due diligence findings provide a useful roadmap for post deal integration and risk mitigation actions.

The Solutions

Working closely with the Transactions team, our dedicated M&A tax teams have performed a large number of tax due diligence reviews, deal structuring advice and post-deal integration project management for foreign companies with China operations. Our services include:

- Perform either a full-scope tax due diligence review or a specific-procedures tax review on your targets, including foreign investment enterprises and domestic enterprises
- Uncover and quantify to the best we can for all major tax exposures. Where exposures cannot be quantified, we will try to provide our best judgment to see if these could be important deal breaker or negotiation issues
- Work with you on structuring the best possible protection against pre-existing tax exposures of the target, including reviewing and recommending tax indemnity clauses, pre-deal vendor restructuring, or post-deal business restructuring
- Provide deal structuring advice to manage risks and optimise tax and financing structure of your transaction. We also provide other transaction support such as negotiation support, structuring of the investment, structuring of a technology transfer, feasibility studies, review of contracts and agreements, etc.
- Assist buyer takes control over the tax planning and compliance practice of the target once the deal is completed, implement concrete actions to crystallise the economic value drives of the deal and perform post-level review to measure the deal performance

To make enquiry of this service, please feel free to contact your usual client service teams or the following specialists:

Lead Partner

Danny Po, Hong Kong +852 2289 3097 danny.po@hk.pwc.com

Central China

Gary Chan, Shanghai +86 (21) 2323 3331 gary.chan@cn.pwc.com

Northern China

Howard Yu, Beijing +86 (10) 6533 2007 howard.l.yu@cn.pwc.com

Southern China

Janet Xu, Guangzhou +86 (20) 3819 2193 janet.xu@cn.pwc.com
Jeremy Ngai, Hong Kong +852 2289 5616 jeremy.cm.ngai@hk.pwc.com

Indirect Taxes

The Issues

Value Added Tax (VAT) and other indirect taxes have grown to be a major source of tax revenues for governments across the globe. In 2004, indirect taxes (VAT, Business Tax and Consumption Tax) constituted over 65 per cent of the State Fiscal Revenue collected in China.

Our experience tells us many multi-national businesses have, so far, usually failed to identify their indirect tax problems or handled their indirect tax issues on a fire-fighting basis. We have identified the following common indirect tax issues faced by businesses operating in China:

- The complexity of indirect taxes and their impact on almost every transaction undertaken by a company gives rise to a high risk profile
- Indirect taxes can give rise to significant cash flow costs
- Interaction of different indirect taxes and direct taxes
- Recent changes in structure, product line or way of doing business can have an impact on indirect tax requirements
- Indirect taxes can be a resource cost through additional administration and process burden
- Interaction of indirect taxes and accounting systems functionalities

The Solutions

It is important to ensure that businesses understand that indirect taxes in China are not simple or to be overlooked but is important, complex and sometimes cumbersome and they should be proactively brought to the forefront within company tax and finance departments.

Our specialist indirect tax team can help you to actively manage your indirect tax processes and explore the following indirect tax cost-saving opportunities:

- Process enhancement to improve data/systems
- Improving cash flow, documentation and transaction analysis
- Implementing structures to avoid irrecoverable indirect tax
- Knowledge management and ownership
- Individual transaction and indirect tax infrastructure based tax planning
- Designing strategies to deal with indirect tax risk

To make enquiry of this service, please feel free to contact your usual client service teams or the following specialists:

Lead Partner

Alan Wu, Beijing

+86 (10) 6533 2889

alan.wu@cn.pwc.com

Central China

Robert Li, Shanghai

+86 (21) 2323 2596

robert.li@cn.pwc.com

Structuring of Investment and Financing

The Issues

Careful attention to the ownership and financing structure of an investment project is important to minimise global taxes. Foreign investors must also consider debt financing on their investments into China. There are numerous benefits associated with debt financing.

Investment projects include both greenfield investments and acquired investments. Foreign investors should consider the following issues:

- Is the China investment structured in a way to mitigate China and global taxes on dividend repatriation?
- Is the China holding structure conducive to flexible exit in the future with minimum tax charges?
- Is debt financing optimised in the funding structure? Is the withholding tax on interest minimised whilst ensuring proper deduction benefits in China?
- Are there debt pushdown opportunities or double dip planning techniques for China investments?
- Is the current structure conducive to reinvesting into China on a tax-optimal basis?
- What may be the home country CFC implications?

The Solutions

Our Structuring specialists have extensive expertise in advising foreign companies on the appropriate ownership structure for their China investments and on the most appropriate financing methods to minimise taxes and maximise profits. Our services include:

- Advise on the most appropriate method of holding and financing your China investment
- Implement the advice by working with your team

We have in-house specialists on the tax systems of many jurisdictions, including the US, the UK, Canada, Australia, Japan, Singapore and Hong Kong. Also, through working with the PwC global network, we would be able to provide integrated advice that cater for your China and home country's tax planning.

To make enquiry of this service, please contact your usual client service teams or any one of the contacts on the front of the brochure.

Use of PRC Holding Companies

The Issues

More and more multi-national companies are looking into the possibility of moving their head offices into mainland China to manage their China operations. The incorporation of a China holding company can provide a number of benefits to multi-national companies with foreign investment enterprises in China, including the centralisation of management, marketing, research and training, distribution and the ability to recruit and hire China nationals directly.

Multinationals that have already established holding companies in China are continuously seeking ways to further utilise their holding companies. As a result of persistent lobbying and China's gradual market liberalisation, holding companies are now allowed to engage in a wider range of activities, such as trading and distribution and provision of outsourcing services to overseas companies. Upon fulfilling certain requirements, holding companies may apply for regional headquarters status and enjoy an even wider business scope.

The Solutions

Our structuring specialists have considerable knowledge and experience on setting up these specialty companies and have been the advisors to numerous multi-national companies concerning the use and taxation of their holding companies and subsidiaries.

Our services including:

- Evaluating and contrasting to other options whether PRC holding company is an appropriate vehicle to achieve foreign investors' objectives
- Advising on the best and latest way to utilise these companies as changes in the permitted scope of activities take place
- Providing full implementation support in establishing, upgrading or amending particulars of the China holding companies
- Building tax optimisation strategy in the advice

To make enquiry of this service, please contact your usual client service teams or any one of the contacts on the front of the brochure.

Transfer Pricing

The Issues

Transfer pricing regulations in China are rapidly developing as the Chinese authorities are keen to protect its tax base and seek out tax avoidance behavior via transfer price manipulation. Top priorities have been placed on both legislating more robust transfer pricing rules as well as increasing the number and effectiveness of transfer pricing tax audits. Common issues faced by foreign investors include:

- How to better understand the latest transfer pricing development and the practical applicability of such rules to their China operations and cross-border transactions?
- How to set up appropriate transfer pricing arrangements in China in a manner satisfying the arms' length principle and China tax regulations and to avoid the risk of double taxation?
- How to best fulfill the related annual reporting of transactions between associated enterprises and the forthcoming documentation requirements?
- How to best deal with transfer pricing audits, especially given the dilemma that there are only limited levels of tax appeal in China and most taxpayers will want to avoid a tax dispute getting to the assessment stage?
- What could be done to improving certainty of current or contemplated transfer pricing arrangements, e.g. via the use of Advanced Pricing Agreement?
- How to evaluate the risks of the current transfer pricing arrangements?
- How to deal with complex transfer pricing issues relating to business restructuring, such as ownership intangible assets?

The Solutions

Our transfer pricing team operates on a national basis. The team comprises of more than 100 full-time professionals and 5 full-time partners, including PhD Economists and industry experts. As an integral part of the PwC Global Transfer Pricing Network, the team in China provides a full range of transfer pricing services to multinational companies. Our services include:

- **Risk assessment review:** As a preventive measure, we can perform a risk assessment review of your company's transfer pricing policies and advise you of the risks to challenge and potential strategies to mitigate the risks
- **Benchmarking and documentation services:** We provide functional analysis, comparable benchmarking and assist your company in documenting the transfer pricing policies in English and Chinese in accordance to China requirements
- **Advanced pricing agreements:** We have lots of experience on negotiating unilateral and bilateral APAs and help you to gain certainty before undertaking certain transactions or policies
- **Audit defense:** We have ample practical experience with tax audits. We can help you understand the techniques and procedures used in a transfer pricing audit and represent your company in discussions with the tax bureau and in preparing your arguments and written response. We are familiar in dealing with Competent Authority cases
- **Transfer pricing planning:** We can assist your company to review and design the transfer pricing policy on your China operations in order to improve overall tax efficiency

To make enquiry of this service, please feel free to contact your usual client service teams or the following specialists:

Lead Partner

Spencer Chong, Shanghai +86 (21) 2323 2580 spencer.chong@cn.pwc.com

Central China

Jeff Yuan, Shanghai +86 (21) 2323 3495 jeff.yuan@cn.pwc.com
Julian Hine, Shanghai +86 (21) 2323 2332 julian.hine@cn.pwc.com

Northern China

Qisheng Yu, Beijing +86 (10) 6533 3117 qisheng.yu@cn.pwc.com
Winnie Di, Beijing +86 (10) 6533 2805 winnie.di@cn.pwc.com

Southern China

Rhett Liu, Hong Kong +852 2289 5619 rhett.k.liu@hk.pwc.com
Cecilia Lee, Hong Kong +852 2289 5690 cecilia.sk.lee@hk.pwc.com

Tax and Regulatory Compliance Services

Corporate Tax Compliance

The Issues

In China, managing corporate tax compliance, especially in a multi-entity and multi-city context is often far from straightforward given the increasingly complex regulatory environment. Many foreign companies find it challenging to knowing the status of tax compliance for all the entities, or which returns are likely to give rise to significant adjustments.

Your China operation is likely to be facing various key tax compliance issues including:

- The need to be certain that you comply with local legislation in each of the cities in China that your company has a presence
- The requirement for increased control over the process and the ability to track the status of compliance in each location
- The pressure to keep up with any changes in local compliance legislation and practice
- The need for quick and easy access to your compliance information in each individual location, for reporting and planning purposes
- The problem of limited resource, in terms of in-house capacity and funding
- Heavy interest and penalty implications for tax non-compliance

The Solutions

Our Tax Compliance specialists can support you with the efficient preparation, completion and review of your organisation's direct and indirect tax returns. Our tax compliance preparation processes are based on up-to-date knowledge of the latest China tax law and practice, and the proper and efficient use of technology. An effective combination of people, processes and technology allows us to coordinate your tax compliance requirements on a multi-location basis across China, as you require, providing you with assurance that your tax compliance processes all over China are under control.

We aim to improve connectivity and management information from the tax compliance process, both for head office reporting and as a base for tax planning.

Our corporate tax compliance services include:

- Corporate income tax return preparation
- Compliance support with other taxes
- Tax payment advice
- Tax compliance time limit monitoring
- Tax compliance outsourcing services
- Negotiating with tax authorities
- Year-end tax accounting and reporting assistance, integration with local country statutory accounting compliance services

To make enquiry of this service, please feel free to contact your usual client service teams or the following specialist:

Lead Partner

Matthew Wong, Shanghai

+86 (21) 2323 3052

matthew.mf.wong@cn.pwc.com

Establishment of Representative Offices, Wholly Foreign-Owned Enterprises and PRC branches

The Issues

Depending on business needs and industry regulations, many foreign companies establish their business presence in China through a range of options including representative offices, joint ventures, or wholly foreign-owned enterprises.

In recent years, there is a growing number of wholly foreign-owned enterprises (WFOEs) that are being approved and set up in China rather than joint ventures. While some of the new WFOEs were distribution WFOEs and some were holding companies, the bulk of them qualified for WFOE status by virtue of bringing high technology or R&D activities into China or exporting the majority of their products. The WTO has made it possible for foreign investors to adopt WFOEs to be set up in many more industry sectors.

Furthermore, many China entities are expanding their presences in multiple cities via establishing branches.

The application by a foreign company to set up a representative office, a WFOE or a branch in China involves a bureaucratic process. Generally, the applicant must be aware of the following issues:

- Whether the business scope is designed broad enough for its intended business activities?
- How to ensure that the application documents are well prepared and procedures are properly attended to (including name listing, feasibility study, articles of association, etc.) in a manner acceptable to China approving authorities?
- Whether the registered and total investments are

appropriately set in accordance to the operating needs and with proper tax planning?

- Whether it is fully aware of all the post-registration requirements after obtaining their business licenses?
- How to attend to all the on-going tax and non-tax compliance requirements?

The Solutions

Our tax specialists can help you with the whole application process of setting up a representative office, a WFOE, or a branch network in China. Our services include:

- Advising you on the appropriate vehicle to use in achieving your commercial objectives
- Preparing the entire application documents including feasibility study, articles of association and interfacing with the approval authorities in obtaining the business license
- Performing all post registration formalities including registrations with tax, labour, foreign exchange, public security authorities, etc.
- Applying with the tax bureau on using the most appropriate tax reporting method, obtaining tax invoices and preparing the income tax, business tax and VAT returns on your behalf and lodge them with the tax authorities

To make enquiry of this service, please contact your usual client teams or any one of the contacts on the front of the brochure.

Accounting and Payroll Services

Accounting

The Issues

Is your representative office or company facing similar challenges in China?

- Lacking manpower to handle accounting functions in-house
- Being unfamiliar with China GAAP and compliance requirements
- Feeling insecure about managing your funds in China
- Losing control over the entity's expenses
- Having difficulty consolidating the China accounts with head office accounts

The Solutions

Our specialists can provide integrated advisory services for your accounting and tax issues.

- Initial set-up of accounting system, including:
 - full set of accounting books
 - selection of Chinese accounting software
 - accounting policies
 - financial management policies
 - chart of accounts
- Cashier services
- Bookkeeping services, which include preparing general accounting and bookkeeping package for China statutory reporting
- Compilation of management accounts
- Annual audit assistance
- Assistance with consolidated annual inspection for license renewal
- Financial review and analysis

To make enquiry of this service, please contact your usual client service teams or contact on the front of the brochure.

Payroll

The Issues

Any payroll issues with your Chinese entity?

- Lacking an integrated payroll solution and an adequate payroll process
- Operating on an out-of-date technology platform lacking scalability to meet continuous headcount growth
- Looking to right size and manage cost
- Lacking resources and expertise to administer payroll and manage compliance risk
- Keeping payroll information confidential

The Solutions

Our payroll specialists can ease your administrative burden, manage your compliance risks and enable your management in China to concentrate on core businesses.

- Initial payroll set-up, including:
 - employer registration for statutory social benefits
 - application for official salary manual from relevant authorities
 - liaison with your Chinese entity regarding individual employees' personal details
 - coordination with bank on proper payroll processing procedures
 - assistance in opening personal bank account for each employee
- Payroll calculation and net salary payment arrangement
- Preparation of individual employee pay slips
- Payroll report for local accounting entry and HQ management
- Preparation and filing of employee's China individual income tax returns and assistance in settling any related tax liability
- Annual statutory assessment of social benefit contribution
- Assistance with external audits and inspection by social benefit authorities

Foreign Contractors

The Issues

Foreign contractors, supplying goods and services to China are faced with various tax issues including the following:

- What are the registration and tax assessment requirements and how to go about complying in China?
- How to minimise taxes (including corporate income tax, withholding income tax, business tax, individual income tax and etc.) on contract payments?
- How to mitigate potential double taxation of business tax?
- How to best manage timely remittance of contract payments due to tax clearance process?
- How the information exchange on individual income tax reporting works between tax authorities of China and foreign counterparts?
- How to ensure you may fulfill the withholding tax obligations for your company and your subcontractors?

The Solutions

Our foreign contractor services specialists have extensive experience on tax treaties, China tax regulations and local practices, as well as on negotiation with tax authorities in order to minimise taxes for your projects in China.

We also maintain excellent working relationships with the central and local tax and other government authorities. This network enables us to provide foreign contractor services throughout China covering all provinces, municipalities and autonomous regions of China.

Our service offering includes:

During your projects contract negotiation phase

- Advising on contractual structures from China tax perspectives and reviewing draft contracts to identify China tax implications or pitfalls in advance
- Tax planning and advice on tax-efficient contractual structures for supply of services and goods

During the life of your project in China

- Fulfilling tax and business registration requirements
- Assisting in negotiating with China tax authorities so as to achieve the most favorable taxation basis including attaining the best deemed profit rate, and/or to apply for tax exemption where applicable
- Regular tax compliance services, i.e. preparing and filing returns for Business Tax, Foreign Enterprise Income Tax, Withholding Income Tax, Individual Income Tax, Stamp Duty, etc
- Handling the entire tax clearance process for ensuring timely overseas remittance purpose
- Helping with tax withholding filings

To make enquiry of this service, please feel free to contact your usual client service teams or the following specialist:

Central China

Betty Ko, Shanghai

+86 (21) 2323 3380

betty.ko@cn.pwc.com

Northern China

Paul Qu, Beijing

+86 (10) 6533 3118

paul.qu@cn.pwc.com

Handling Tax Audits

The Issues

Tax bureaus are utilising field audits more and more to identify taxpayers who have not completely complied with the tax laws and regulations. Many tax bureaus have now set up anti-tax avoidance units to investigate more serious cases. On the other hand, many taxpayers are often not familiar with the subtle requirements of the tax laws and regulations and are surprised when they are presented with the tax examination reports by the tax auditors. A penalty of up to five times of the tax owed could be imposed, as well as the surcharge for underpayment of tax at 0.05% per day. More serious cases may lead to prosecution under the criminal law.

The Solutions

Our tax specialists are experienced in dealing with tax officials. We can assist you with the following:

- Preparing for a tax audit, reviewing potential arguments and positions, and handling queries from the tax authorities
- Performing a tax-risk assessment of your foreign investment enterprise or representative office to identify tax exposures and correct them before an audit
- Representing taxpayers who want to voluntarily disclose under-reported income to the tax bureau and minimise their penalties

To make enquiry of this service, please contact your usual client teams or any one of the contacts on the front of the brochure.

Health Check of PRC Operations

The Issues

A great deal of effort is spent on properly setting up a joint venture or wholly foreign-owned enterprise in China. However, the tax and other laws in China are constantly changing. Financial and tax executives at head office sometimes wonder whether the joint venture or wholly foreign-owned enterprise in China is in full compliance with all the relevant rules and regulations, including such areas as the proper handling of value added tax transactions, adherence to the permitted scope of business of the enterprise, tax withholding exposure if the enterprise had used the services of a foreign contractor (including one from within the group) on construction or installation-related work, full compliance with individual income tax obligations for expatriates and local employees, compliance with changing foreign exchange regulations, and so on.

Similarly, it is easy for a representative office to stray beyond its permitted business scope. If the enterprise or representative office does run into difficulties with the authorities, it could be subject to heavy penalties or fines, which the authorities are not as able to waive or reduce as they were in the past.

The Solutions

We are experienced in performing “health checks” on China enterprise or representative office to see if it is in compliance with key rules and regulations and to provide advice on corrective action that needs to be taken. At the same time, we can look for opportunities to reduce the tax burden of your enterprise or representative office in China.

To make enquiry of this service, please contact your usual client service teams or any one of the contacts on the front of the brochure.

Human Resources Services

Human Resource Healthcheck

The Issues

Human resources have been one of the major challenges facing foreign investors in China as they need to understand not only the ever-changing national, provincial, and municipal regulations but also various local practice and interpretations adopted by the relevant authorities.

In the light of the increasing tax and legal risks and exposures in China, it now becomes more important that foreign investors do not underestimate the related human resource issues while carrying and expanding their operations in China.

The Solutions

Our International Assignment Services specialists help companies solve a wide range of human resource related issues including protecting wealth, optimising operational efficiency and minimising costs to companies and individuals. Our specialists have extensive, in-depth knowledge of the China business regulations including issues surrounding the employment law, employment contracts, employee benefits and mandatory social insurance contributions.

Our teams can also assist in the human resource compliance review of your China enterprise or representative office to assess whether it is fully compliant with the current China labour regulations and practice as well as the company's established procedures and policies.

Our human resource compliance review normally involves examining your current operations to determine the compliance status against the relevant China labour law and regulations on areas such as employment contracts, statutory benefits, compensation and benefits, visas and work permits for foreign employees. The review will identify areas where the overall effectiveness and efficiency can be improved.

To make enquiry of this service, please contact your usual client service teams or the following specialists:

Lead Partner

Mandy Kwok, Hong Kong	+852 2289 3900	mandy.kwok@hk.pwc.com
-----------------------	----------------	-----------------------

Central China

David Cullen, Shanghai	+86 (21) 2323 3053	david.cullen@cn.pwc.com
Stacy Kwok, Shanghai	+86 (21) 2323 2772	stacy.kwok@cn.pwc.com
Victoria Bao, Shanghai	+86 (21) 2323 3031	victoria.bao@cn.pwc.com

Northern China

Edmund Yang, Beijing	+86 (10) 6533 2812	edmund.yang@cn.pwc.com
Rebecca Lai, Beijing	+86 (10) 6533 3065	rebecca.lai@cn.pwc.com

Southern China

Mandy Kwok, Hong Kong	+852 2289 3900	mandy.kwok@hk.pwc.com
Jacky Chu, Hong Kong	+852 2289 5509	jacky.chu@hk.pwc.com

People Strategy and Human Resource Management

The Issues

In China's increasingly complex business environment, human resource management is no longer regarded as a "behind the scenes" process within a company. Managers recognise the impact that effective human resource management can have on a company's bottom-line. A company's success is driven, not only by well-formulated vision and strategies, but also by the "human forces" that drive the process.

Hence, a well-designed human resource management approach is important in selecting, retaining and motivating the people on the ground in China to implement the company's vision and strategies.

In addition, as companies are increasingly moving toward localisation, a well mapped localisation programme and succession plan are important for the on-going success of the company.

The Solutions

With our wealth of expertise, the PricewaterhouseCoopers Human Resource Services team will work in partnership with our clients to design an effective human resource management approach. Our consulting services provide guidance and hands-on assistance with staffing and labor contracts, compensation and benefits, as well as localisation, performance management, and union relations.

Our integrated services include: human resource management and consulting services, due diligence and start-up, organisation and management design and development, compensation and benefits consulting, employee and union relations, employee development and localisation, client training services, labor reorganisation & workforce re-engineering, benchmarking global and China human resource practices, people strategy, strategic reward and performance management, human resource information systems, retirement, actuarial and benefits, and international employment solutions.

To make enquiry of this service, please contact your usual client service teams or the following specialists:

Lead Partner

Mark Gilbraith, Shanghai

+86 (21) 2323 2898

mark.gilbraith@cn.pwc.com

Northern China

Roger Ng, Beijing

+86 (10) 6533 3108

roger.fm.ng@cn.pwc.com

PRC Individual Income Tax Planning and Compliance

The Issues

Individuals working in China face complicated tax rules and practice concerning their China individual income tax matters. With the top marginal tax rate in China being 45%, it is vital for employers and employees to agree upon a tax efficient remuneration packages and employment or secondment model that would give rise to the least overall implications and exposures to the parties concerned.

With the tax authorities' increasing efforts to enhance the tax administration and collection mechanism (e.g. regular audits, annual tax filing, information exchange, etc.), employers and employees now face much higher exposure and risk than before.

The Solutions

Our International Assignment Services specialists have extensive experience in the Chinese tax system and many home country tax regimes and are able to help design tax effective remuneration packages and international assignment policy (e.g. tax equalisation policy, expatriate fringe benefits reimbursement policy, etc.) from both the home and host countries tax perspectives.

In addition to the expatriate tax planning and consultation services, we can also assist the companies and employees with the tax investigation and audits defence as well as the monthly and annual tax administration.

We can also review the current compensation structure and tax reporting arrangement and identify areas where further improvement is required.

To make enquiry of this service, please contact your usual client service teams or the following specialists:

Lead Partner

Mandy Kwok, Hong Kong	+852 2289 3900	mandy.kwok@hk.pwc.com
-----------------------	----------------	-----------------------

Central China

David Cullen, Shanghai	+86 (21) 2323 3053	david.cullen@cn.pwc.com
Stacy Kwok, Shanghai	+86 (21) 2323 2772	stacy.kwok@cn.pwc.com
Victoria Bao, Shanghai	+86 (21) 2323 3031	victoria.bao@cn.pwc.com

Northern China

Edmund Yang, Beijing	+86 (10) 6533 2812	edmund.yang@cn.pwc.com
Rebecca Lai, Beijing	+86 (10) 6533 3065	rebecca.lai@cn.pwc.com

Southern China

Mandy Kwok, Hong Kong	+852 2289 3900	mandy.kwok@hk.pwc.com
Jacky Chu, Hong Kong	+852 2289 5509	jacky.chu@hk.pwc.com

pwccn.com

© 2008 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" refers to the China firm of PricewaterhouseCoopers or, as the context requires, the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

