This report provides helpful information on the current business environment in China. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on China

Contents

RBC Royal Bank®

Important to Know

Official languages

- Standard Chinese or Mandarin (Putonghua, based on the Beijing dialect)
- Yue (Cantonese)
- Wu (Shanghainese)
- Minbei (Fuzhou)
- Minnan (Hokkien-Taiwanese)
- Xiang
- Gan
- Hakka dialects
- other minority languages

Currency

- Renminbi (RMB)
- Yuan (CNY)

Bank holidays

2010	
October	1, 4, 5
2011	
January	3
February	2–8
April	5
May	1
June	6
September	12
October	1–5

Source: www.goodbusinessday.com.

Types of Business Structure

Under the law of the People's Republic of China (PRC), there are a few different types of domestic business structures available, which are solely owned by Chinese entities or individuals: sole proprietorships, state-owned enterprises, collective-owned enterprises, limited liability companies (which require a minimum registered capital of RMB 30,000 with less than 50 shareholders), and companies limited by shares (minimum share capital of RMB 5 million set up by promotion or share offer).

On June 1, 2007, the Partnership Enterprise Law came into effect, establishing partnerships as a legal business entity for domestic entities and individuals. General, limited and special partnerships are available. The law does not bar foreign investors from establishing a partnership, but the government has yet to set out a process for them to do so.

Foreign Investment Enterprises (FIEs)

Foreign investors are permitted to invest in foreign investment enterprises (FIEs) in mainland China, of which there are several types of structures. An FIE generally has at least 25% foreign investment. An FIE is typically organized as a limited liability company. An FIE cannot issue shares unless it is converted into a joint stock company.

When setting up an FIE in China, it is important to seek professional and legal advice and a company should employ a PRC lawyer, accountant or registered agent for registration and application procedures. Approval of an FIE by the Chinese Government depends on the nature of the proposed project, which usually falls under one of four categories: encouraged, restricted, prohibited or permitted. The Ministry of Commerce (MOFCOM) approves the formation of FIEs and issues approval certificates. Local MOFCOM authorities carry out assessments. After obtaining the approval certificate from the local MOFCOM authority, the FIE must register with the State Administration for Industry and Commerce (SAIC) within one month to obtain a business licence. From the issuance of the business licence, the FIE must register with the local tax authorities within one month.

Further approvals may be necessary from the Organization Code Bureau, the Foreign Exchange Supervision Bureau, the Finance Bureau, the Statistics Bureau and the Customs Bureau.

Wholly foreign-owned enterprise

WFOE. This is a limited liability company that is a 100% foreign-owned subsidiary, whose parent company has sole responsibility and control. This requires a minimum registered capital of RMB 30,000 (though it should also be in relation to the proposed business plan), of which at least 15% must be paid up within three months from the issuance of the business licence, and should be generally fully paid up within two years. Thirty percent of the registered capital must be cash.

Equity joint venture

EJV. This is a limited liability company established by one or more foreign investors with one or more Chinese investors. This requires a minimum registered capital of RMB 30,000. Investors hold equity interest, but do not hold stock. The ownership and profits/losses are shared in proportion to registered capital contributions. At least 25% foreign investment in the registered capital is required for an EJV. Government approval is required for transfers or withdrawals of equity.

Cooperative joint venture

CJV. This is a company that can be registered either as a limited liability company or as an entity in which each partner remains a separate legal entity. The ownership and profits/losses are shared, not necessarily in proportion to capital contribution, but rather are based on a contractual agreement (subject to government approval). Normally, the Chinese partner will contribute services or the use of premises rather than a capital contribution.

Company limited by shares with foreign investment / foreign investment joint stock company

CLSFI / FIJSC. This is a company that can be listed on a public (Chinese or otherwise) stock exchange. Foreign investment joint stock companies can be set up by means of promotion, of which at least one promoter must be a foreign investor and half must be domiciled in China. Increasingly, FIEs (WFOEs, EJVs and CJVs) are also able to convert into foreign investment joint stock companies through share flotation, in which registered capital is converted into stock. They are divided into A shares (RMB-denominated) and B shares (USD-denominated). Foreign investment joint stock companies require a minimum of RMB 30 million in registered foreign capital.

Other companies

A Build-Operate-Transfer Project (BOT) is a project whereby the government provides special concessions for industrial and infrastructure projects (e.g., subways, airports, bridges) in return for an entity to finance and operate a project which is eventually transferred to the ownership of the government. The entity must be a limited liability company.

A holding company can be either an EJV or a WFOE and allows a foreign company to hold together its joint venture and WFOE companies in China. It is subject to government approval. Registered capital of RMB 30 million is necessary for a holding company in China.

Branches and representative offices

Non-Chinese companies are entitled to establish a branch or a representative office in mainland China. Generally, branches are only established for financial services and oil exploration companies. A branch's activities are considered part of the company's head office and therefore not a separate legal entity, and it is not afforded the same rights and protection as Chinese legal entities. To open a branch, a company must register and file a number of documents with the appropriate authorities and appoint a Chinese legal representative.

Companies may also choose to establish a representative office (RO) for non-transactional business activities, e.g., liaison, marketing and market research purposes.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be incorporated in China or have its effective centre of management or control in China. Companies incorporated in China can however be considered resident in another country under a double taxation treaty.

Domestic and foreign currency account restrictions

Residents are not permitted to hold local currency (RMB) accounts outside China. Subject to approval from the State Administration for Foreign Exchange (SAFE), resident entities may hold foreign currency accounts both within and outside China.

Non-residents are not permitted to hold local currency accounts inside or outside China. They are permitted to hold foreign currency accounts in China.

RMB is convertible on a current account but is not convertible on a capital account.

All corporate accounts need the approval of the People's Bank of China / SAFE to be opened, excluding foreign currency settlement accounts. An entity must seek approval from SAFE when it opens a foreign currency account for the first time, but any subsequent accounts only need to be registered with SAFE and do not require formal approval.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification (by means of an authentic and valid identity card or other identity document) of the account holder. Similar customer identification is also required when providing occasional financial services such as cash remittance, cash exchange or note cashing exceeding RMB 10,000 or the equivalent of USD 1,000.
- Financial institutions are required to identify the natural person(s) who actually control(s) the customer and the actual beneficiary of the transaction.
- Financial institutions must take reasonable steps to determine whether the customer is conducting business on behalf of others and must obtain and record information to verify the identity of the representative.
- When providing cash deposit or cash withdrawal services for an occasional transaction for a value exceeding RMB 50,000 or the equivalent of USD 10,000, financial institutions must verify the identity of the customer.
- Customers are required to give one day's notice of withdrawals exceeding RMB 50,000 in cash.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at July 2009.

Special purpose accounts required by local regulation

There are a number of bank accounts for special purposes in China for both local currency and foreign currency:

- Local currency bank accounts
  - Basic account – used for settlement purposes, specifically for payroll and cash withdrawals. Only one account per legal entity is allowed.
  - General account – used for payments and receipts, but not for payroll or cash withdrawals. There is no maximum number of accounts or locations for each legal entity.
  - Temporary account – used when outside the city where the legal entity is registered. There is no maximum number of accounts for each legal entity.
- Foreign currency bank accounts:
  - Capital account – used for capital expenditure payments that are approved by SAFE and direct capital investment in a foreign investment enterprise by investors.
  - Current account – used to make/receive payments for import/export transactions.
  - Special account – used for special purposes, including foreign debt and interest repayment.
- Accounts for both domestic and foreign currency:
  - Fixed time deposit account – the minimum maturity of a fixed time deposit in RMB is three months. There is no maximum number of accounts for each legal entity.
  - Call deposit account – call deposits require at least one day's notice for withdrawal. There is no maximum number of accounts for each legal entity.

Value-added tax (VAT) on banking services

Under Chinese law, banking and financial services are subject to business tax.

The business tax rate for banking and insurance companies is generally 5% based on the turnover of transactions.

Payment and Collection Instruments

Cheques are the most common cashless payment instrument for local domestic payments made by small businesses and consumers in China, while electronic funds transfers are the most common for inter-city payments and large financial centres. Electronic funds transfers can be initiated using Internet and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments, though some companies still use cash. Payroll payments must be made from the company's RMB basic account. Cheques, bank drafts and credit transfers are common methods of payment for business-to-business transactions. Card payments are the most commonly used payment instruments for consumer transactions in cities, with debit cards much more popular than credit cards. Payment card usage has developed rapidly in China and is actively encouraged by the PBC. A bankcard service has also been adapted for the migrant worker population and introduced in China's rural communities. Use of pre-authorized direct debits is generally limited and used primarily by utility and insurance companies to collect domestic payments.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2006/2005	Traffic (value) (RMB billion)		% change 2006/2005
	2005	2006		2005	2006	
Cheques	N/A	1,166.3	–	N/A	208,502,432	–
Bills of exchange	N/A	24.9	–	N/A	16,176,150	–
Credit transfers	N/A	631.62	–	N/A	163,725,317	–
Direct debits	N/A	173.5	–	N/A	10,352,630	–
Debit cards*	2,239.8	3,126.2	39.6	1,060,989.6	1,275,856.4	20.3
Credit cards	96.4	178.7	85.4	143,098.2	194,071.4	35.6
Card-based e-money	4,880.2	5,578.0	14.3	28,481.2	34,861.0	22.4

* Includes ATM transactions.

Source: Euromonitor report, Financial Cards in China 2007, and People's Bank of China.

International Payments

International payments are processed through traditional correspondent banking networks via SWIFT connections. Some banks can issue foreign currency bank drafts. A pilot programme launched by the PBC allows for cross-border trade transactions in RMB to be made between Shanghai, and four cities in Guangdong province, and accounts based in Hong Kong, Macau and the Association of Southeast Asian Nations (ASEAN)* countries.

*ASEAN is an economic, political and social-cultural association whose founding members are Indonesia, Malaysia, Philippines, Singapore and Thailand; other Southeast Asian countries have since become members.

Payment Processing Times

Transactions processed (RMB-denominated)	Value dating rules	Cut-off time(s) in local China Standard Time (CST)
High-value and urgent domestic transfers	Settlement in real time with immediate finality	16:30 CST
Non-urgent, low-value domestic consumer payments	Payments are settled on a same-day or next-day basis	Credits, pre-authorized collections and dated debits = 16:30 CST Cheques = 16:15 CST
Interbank lending and funds transfers in AUD, CAD, CHF, EUR, GBP, HKD, JPY and USD	Settlement on same-day basis	16:30 CST

Central Bank Reporting

SAFE collates balance of payments statistics from the mandatory reporting of international payments between residents and non-residents and all payments in foreign currency involving residents.

SAFE requires the paying banks to report all international transactions via SAFE's computer system. However a company, regardless of being the remitter or the beneficiary, must also send supporting data.

Foreign trade transactions are required to be reported to SAFE by trading entities.

Exchange Arrangements and Controls

China applies currency exchange controls, which are managed by SAFE and overseen by the PBC. The exchange rate is determined by a reference to a basket of ten currencies, including the USD, EUR, JPY and KRW, trading within a narrow fluctuation band of 0.5%.

There has been an easing to some degree of exchange controls in the past few years.

Restrictions which previously allowed only the four large state-owned banks to conduct forward and interbank forward transactions for lending and trade purposes were eased in August 2005 and the prior maximum maturity restriction of one year was abolished. Since June 2009, all types of companies have been allowed to invest forward foreign exchange earnings (subject to approval from SAFE) in overseas branches. In addition, companies are now permitted to pay initial expense costs with foreign currency, before any direct outward foreign investment.

The export/import of domestic currency exceeding RMB 20,000 is prohibited.

All payments greater than USD 500,000 must be reported to SAFE.

Upon dissolution of a foreign or joint-venture company in China, the remaining claims of the foreign investor can be remitted through the company's foreign exchange account following approval from SAFE.

Foreign-invested joint ventures can borrow hard currency. Loans do not require approval from, but must be reported to, SAFE. Regulations are stricter for external borrowing by domestic companies or financial institutions, and legal advice should be sought.

The Ministry of Commerce approves all licensing agreements. Following approval, payments or fees can be remitted without prior approval from SAFE.

Foreign investors can remit dividends and profits from foreign and joint ventures after their Chinese income taxes are paid and all reserve-fund and labour-fund obligations are met. For joint ventures, profits cannot be distributed until losses from the previous year have been made up.

Cash and Liquidity Management

Government controls on foreign exchange transactions, the prohibition on direct inter-company loans, the non-convertibility of RMB on the capital account and the lack of treasury devices such as inter-company netting make cash and liquidity management difficult in China, but it is still possible.

Physical Cash Concentration

Domestic physical cash concentration can be realized through an entrustment loan (EL) agreement. ELs allow inter-company financing which is otherwise prohibited, but SAFE must approve EL agreements. As there is no uniform structure, due diligence and a through review of company needs must be taken when creating these structures.

Under an EL, banks or Chinese registered group financial companies act only as intermediaries, transferring funds between the participating entities without taking credit risk. Through an EL, zero balance, target balance and threshold balance accounts can be arranged for multiple entities. Cross-bank sweeping is also possible.

Select non-residents are able to participate in EL agreements in China. Since November 1, 2004, selected subsidiaries of domestic and foreign multinationals have been permitted to temporarily lend excess foreign currency funds to related group entities either within China or abroad prior to formal declaration and payment of dividends. Since the 2005 Pudong Nine Measures, foreign currency cash pooling with domestic group entities under an EL agreement has been possible. Concentration of foreign currency funds from overseas subsidiaries and SAFE approved funds from domestic subsidiaries to offshore banking units has also been permitted.

Notional Cash Pooling

Notional cash pooling is not permitted.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available, but interest earned is low. Banks offer time deposits in domestic currency for terms from one week up to a year, although rates are subject to limits set by the PBC. Foreign currency time deposits are available for terms from three months to two years and banks can freely set rates on any foreign currency fixed deposits over USD 3 million. Banks also issue certificates of deposit (CDs), but the market is not developed.

Non-bank instruments

Chinese companies can issue commercial paper (CP) with the proper documentation submitted to the PBC, although CP is not available to foreign invested companies.

The Chinese Government issues Treasury bills. Qualified Foreign Institutional Investors are permitted to trade in Chinese Government securities.

Money market funds are available in the interbank market.

Short-term Borrowing

Foreign Investment Enterprises (FIEs) must meet rigorous conditions to obtain external funding.

Bank

Overdrafts, bank lines of credit and bank loans are usually available in China to both domestic companies and FIEs. However, FIEs usually arrange overdrafts in Hong Kong where interest rates are usually lower. The PBC publishes its General Rules on Loans to domestic companies and FIEs. Interest is usually charged at the central bank's reference rates.

Non-bank

Commercial paper has been issued in the Shenzhen Special Economic Zone, but issues are rare.

Foreign trade-related bills of exchange are discounted. Factoring is available.

Taxation

Corporate Taxation

- China traditionally had separate corporate tax laws to govern foreign investment and domestic-funded enterprises: the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises (FEIT Law) and the Provisional Regulation Concerning Enterprises Income Tax (EIT Regulation). Now that the Enterprise Income Tax Law (EITL) has been introduced, both types of enterprise are now governed by a single unified tax system.
- The EITL creates a level playing field for domestic and foreign enterprises by unifying the tax rate. A flat tax rate of 25% applies to both types of enterprise, with the same expense deduction criteria and available tax incentives. In addition, the EITL also indicates that the PRC government intends to further enhance tax administration. The EITL includes a chapter on Special Tax Adjustments which adopts international practice in transfer pricing administration and addresses issues related to tax avoidance.
- Under the EITL, most of the geographically oriented preferential tax treatment formerly available for manufacturing foreign-invested enterprises has been replaced by a new tax incentive system that focuses on specific industries such as high and new-technology industries. The new incentive system continues the incentives available for R&D activities carried out by enterprises and extends the tax-preferential treatment that is currently available to qualified high and new-technology enterprises located in special zones to all qualified enterprises nationwide. The EITL also provides a "grandfather" rule for enterprises that currently benefit from preferential tax treatment in the form of reduced enterprise income tax rates or enterprise income tax reduction / exemption with fixed terms.
- Cost sharing arrangements for the development of intangible property and services are formally adopted in the Special Tax Adjustment chapter. The chapter emphasizes the application of the arm's length principle to related-party transactions, preserves the use of informational returns and formalizes the use of Advance Pricing Agreements (APAs) as a means for taxpayers to address the risk of transfer pricing adjustments. The chapter also contains measures on thin capitalization and controlled foreign companies, as well as a general anti-avoidance rule that requires all arrangements to have commercial substance; otherwise, they may be challenged and adjusted by the tax authorities, and interest may be imposed on any tax charged as a result of a tax adjustment.

Advance Tax Ruling Availability

- Although the tax laws and regulations do not prohibit advance tax rulings, in practice it is generally difficult to get an advance tax ruling regarding hypothetical situations.
- On September 20, 2004, the Chinese tax authorities implemented the Advance Pricing Agreement (APA) regulation in respect of the transfer pricing tax regime. The APA regulation is incorporated in the EITL, and most of the contents of the 2004 APA regulation have been kept in the Implementation Regulations for Special Tax Adjustments (Trial) (STA Rules) issued in January 2009.

Withholding Tax (subject to tax treaties and other exemptions)

- Although the EITL provides for a 20% withholding tax, the rate is reduced to 10% according to implementation rules. Chinese-sourced income (including dividends, interest, royalties and other payments derived by foreign enterprises without a permanent establishment in China or where the income generated is not effectively connected to the foreign enterprise's establishment in China) are subject to withholding tax.
- Dividends paid to a foreign investor of a foreign-invested enterprise were formerly exempt from withholding tax, but the situation has changed under the EITL, with a 10% withholding income tax introduced. Caishui [2008] No. 1 further clarifies that the retained earnings of a foreign-invested enterprise accumulated up to January 1, 2008 that are distributed to its foreign investors in or after 2008 are still exempted from withholding tax. Profits newly created in 2008 and later that are distributed to foreign investors will be subject to a 10% withholding income tax unless a preferential treaty rate is available where a tax treaty (or a tax arrangement) applies.

Capital Gains Tax

- For resident companies with foreign investments, capital gains are taxed as part of a company's taxable profits at the applicable corporation tax rate, and relevant capital losses may be offset against ordinary income. Capital gains are calculated based on proceeds less deductible costs and expenses.
- Capital gains derived by foreign companies and individuals from China were previously subject to a 20% withholding tax, which was reduced to 10% in 2000. The 10% withholding income tax has remained unchanged under the implementation rules of the EITL.

Stamp Duty

- Loan contracts (except interbank loan agreements) are subject to stamp duty at the rate of 0.005% based on the loan amount. This tax should be paid by each party to the loan contract.
- On April 24, 2008, China reduced the stamp duty on the trading of listed A and B shares from 0.3% to 0.1%. This tax was previously paid by each party to the transaction. On September 19, 2008, the State Council decided to suspend stamp duty for purchasers so that this tax is only imposed on sellers.
- The applicable tax rate for the transfer of equity shares, other than A shares and B shares, is 0.05% of the indicated transaction value. Each party to the contract should pay the tax.
- The applicable tax rate for property insurance contracts, including property insurance, bonding, guarantor, surety and credit undertakings and similar insurance contracts, is 0.1%. Each party to the contract should pay the tax.

Thin Capitalization

- China imposes mandatory debt-to-equity ratios for foreign-invested enterprises, and the equity of a foreign-invested enterprise should be paid up within a stipulated time period. Although this is not a tax regulation, in practice interest expense incurred on debts in excess of the ratio is not deductible for enterprise income tax purposes. The EITL formally introduced a thin capitalization rule, and Caishui [2008] No. 121 further specified a debt-to-equity ratio of 2:1 for general enterprises and 5:1 for financial enterprises. For interest expenses incurred on any related-party debt investments exceeding the debt-to-equity ratio, the deduction is not allowed unless the underlying transactions can be proved to be in compliance with the arm's length principle through contemporaneous documentation, or the interest expense is payable to domestic related parties with higher effective tax rates. The implementation rules of the EITL clarify that "debt investments" refer to arrangements where an enterprise has directly or indirectly acquired financing from related parties and where the enterprise is required to repay the principal and also to make interest payments to the lending party (or any other form of compensation which is of an interest payment nature).

Controlled Foreign Companies

- Under the CFC rule in the EITL, where an enterprise is "controlled" by enterprises resident in China and/or individual Chinese residents and established in a country or region where the effective tax rate is significantly lower than 25% (the new tax rate under the EITL), and the CFC either does not distribute profits or distributes less profit than it should (without justification), then a portion of the profits will be attributed to the PRC resident enterprise and included in the taxable income of the PRC resident enterprise in the current period.
- The implementation rules further clarify that the term "significantly lower" than the effective tax rate of 25% means that the effective tax rate is less than 50% of the 25% tax rate. In addition, the term "controlled", as cited above, includes:
  - a resident enterprise or an individual resident of China directly or indirectly holding 10% or more of total voting shares, and such resident enterprise(s) / individual resident(s) jointly holding more than 50% of total shares of the foreign enterprise; or
  - a situation where the shareholding percentage of resident enterprise(s) and individual resident(s) of China does not meet the percentage standard as stipulated above, but substantial control is formed over the foreign enterprise in respect of shareholding, financing, business, purchase and sales, etc.

General Anti-avoidance Rule

- The EITL also introduced a general anti-avoidance rule that allows the tax authorities to make reasonable adjustments where an enterprise has reduced its taxable income by engaging in a business arrangement without a bona fide commercial purpose.

Transfer Pricing

- Transactions between related parties must be carried out at arm's length. The Organisation for Economic Co-Operation and Development (OECD) transfer pricing guidelines are applied in determining whether a price is at arm's length. Although there are no specific documentation requirements to support the prices used, the burden of proof is on the taxpayer to demonstrate the arm's length nature of the prices during a tax audit.
- It was generally anticipated that the tax authorities would enhance transfer pricing investigations in the unified tax law. In accordance with the EITL, taxpayers are required to submit a form detailing related-party transactions during the year in an appendix to its annual income tax return, and provide relevant documentation when so requested by the tax authorities during a tax audit. Failure to provide relevant information or to demonstrate compliance with the arm's length principle can lead to a tax adjustment as well as interest on taxes charged as a result of the adjustment.
- The EITL, together with the STA Rules, has introduced the requirement of contemporaneous documentation for transfer pricing for the first time in China. According to the STA Rules, contemporaneous documentation must be prepared by May 31 of the following year and maintained for 10 years. Enterprises may be exempt from this requirement if certain conditions are met (e.g., the amount of annual related-party transactions does not reach the threshold specified in the STA Rules).
- The EITL specifically endorses CSAs for the joint development or transfer of intangible assets, or the provision or receipt of labour services. However, according to the STA Rules, a CSA involving services is generally limited to group purchase and group marketing planning activities. All CSAs should be filed and approved by the State Administration of Taxation.

Sales Taxes / VAT

- VAT is generally levied on the sale of goods, the provision of repair and replacement services and the importation of goods into China. The taxpayer will be responsible for output VAT based on taxable income, while the input VAT paid on the purchase of goods or services should be available as a credit to offset against output VAT. The standard VAT rate is 17%, but there are reduced rates of 13% (for food grains, tap water, heating, natural gas, books, feeds, fertilizers, etc.). Exported goods are generally exempt from VAT, with different VAT refund rates.
- The Chinese VAT system formerly operated on a production

basis in which the credit of VAT on fixed assets was not allowed. From January 1, 2009, reform of the VAT system to one based on consumption has been rolled out on a countrywide basis. The fundamental change of the reform is the recovery of VAT on fixed assets.

Business Tax

- The provision of certain taxable services in China is subject to business tax. The business tax rate for banking and insurance companies is 5% based on the turnover of transactions. Turnover is generally the total consideration and all other incidental charges received or receivable by the seller for the provision of taxable services. However, for businesses buying and selling foreign currencies, marketable securities and futures, turnover is the difference between the selling price and the buying price.
- Royalty charges are subject to business tax at 5%. If the transferor is a foreign company, the payer must withhold 5% business tax from the payment made overseas. However, technology transfer / development and related consultancy services may be exempt from business tax if certain criteria are met.
- Certain repayable life insurance with a term exceeding one year is exempt from business tax, as is insurance for farming and husbandry.
- Foreign lenders making loans to entities in China had not previously been subject to business tax under Guoshuifa [1997] No. 35, but with the abolition of this tax notice it was then unclear whether the interest on such loans would be subject to business tax and therefore gave rise to inconsistent interpretations and local practice. Further, according to the revised business tax regulations effective from 2009, which define the "provision of taxable services in China" as the situation where either the service provider or recipient is located in China, it is generally believed that the above mentioned interest income is subject to business tax under the new regulations.

Payroll and Social Security Taxes

- Employers are required to register with the local social security authorities and make social security contributions in respect of local employees. The statutory social security contributions include pension, medical, housing and unemployment funds. The rates for pension, medical, housing and unemployment are approximately 20%, 10%, 7–13% and 2% respectively, depending on the rates fixed by the local government. Normally there is a ceiling for the calculation base that is three times the average monthly salary in the preceding year in that location. The rate varies from location to location. Local governments can decide the calculation base and rates within the framework provided by central government, and it is usually reviewed and revised by local governments on a yearly basis. The employer's contribution is normally deductible for corporation tax purposes.
- Foreign invested enterprises are also required to allocate a percentage of their after-tax profits to the employees' bonus and welfare fund. The board of directors can decide the percentage of the contribution. The fund can be used to pay special bonuses and for the collective welfare of employees (such as the construction and maintenance of a dormitory).

Individual Income Taxes

- Employees are required to pay income tax on their wages and salaries and employers are required to withhold tax on behalf of their employees. For salaries, the applicable tax rates are between 5% and 45% on a progressive basis. The first RMB 1,600 each month was not taxable for local employees; however, the threshold has been raised to RMB 2,000 each month, effective from March 1, 2008. Generally the threshold is RMB 4,800 each month for expatriate employees.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at April 1, 2009.

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