



mgi

BUSINESS SOLUTIONS
WORLDWIDE

Doing Business in Mainland China

A worldwide association of independent
auditing, accounting and consulting firms

Doing Business in Mainland China

2010

LehmanBrown

LehmanBrown is a licensed China-focused accounting, taxation and business advisory firm, combining years of international expertise with practical China experience and knowledge, offering expert advice and support to both local and international clients. We are committed to providing individually tailored financial solutions for each of our clients.

We currently operate through offices in Beijing, Shanghai, Shenzhen, Tianjin, Guangzhou, Hong Kong and Macau and affiliates in a number of other Chinese regions and cities, which are staffed by a combination of China and expatriate professionals. We also have international liaison offices in the UK and Mongolia. Direct staffing is currently around 250 professionals through out China.

LehmanBrown also is one of only a few CPA firms in China to be registered with the PCAOB in the US and is able to conduct SEC work. LehmanBrown was the first China-wide accredited Platinum Employer and is accredited as a Professional Development Partner for ACCA, is one of only eight companies in China to be approved as Training Quality Partner for Chartered Institute of Management Accountants, and is approved as an Authorized Training Organization for Institute of Chartered Accountants of England and Wales (UK)

LehmanBrown recognizes that each client is unique and has unique requirements. We are committed to providing individually tailored financial and business solutions for each of our clients. Through offering “whole of life” services, LehmanBrown offers clients assistance throughout every step of their China business life cycle, from pre-conception to after life.

With our dedication to personalized service and adding real value, we work closely with you to understand your individual business and unique business requirements, allowing our experts to offer you the most up-to-date and expert advice for all of your needs.

Service Range

Professional Services: audit, taxation advisory, company setup and registration, HR advisory, and professional financial recruitment.

Financial accounting: outsource accounting services, from the provision of CFO services to bookkeeping, payroll and welfare, and office administration, including preparation of company policy and procedure manuals.

Management accounting: market growth related services including training and assistance in budgeting, forecasting, cash flow management and business strategy.

Systems solutions: efficiency improvement services, including review and implementation of management information systems and surrounding processes.

Business management: management consulting and corporate finance services, including assistance with market entry strategy, mergers, acquisitions and divestitures, business and financial due diligence, business and asset valuation, business investigation, internal communication and M&A integration.

Beijing:

6/F, Dongwai Diplomatic Building
23 Dongzhimenwai Dajie
Beijing 100600, China
Tel: +86 10 8532 1720
Fax: +86 10 6532 3270
E-mail: beijing@lehmanbrown.com

Shanghai Office:

Room 1501 & 1504,
WanTai International Building,
No. 480 North Urumqi Road
Shanghai 200040, China
Tel: +86 21 6249 0055
Fax: +86 21 6288 1636
E-mail: shanghai@lehmanbrown.com

Guangzhou Office:

Room 3317, China Shine Plaza,
9 Lin He Xi Road,
Guangzhou 510610, China
Tel: +86 20 2205 7883
Fax: +86 20 2205 7880
E-mail: guangzhou@lehmanbrown.com

Shenzhen Office:

Room 3206, News Building
2 Shennan Middle Road
Shenzhen 518027, China
Tel: +86 755 8209 1244
Fax: +86 755 8209 0672
E-mail: shenzhen@lehmanbrown.com

Hong Kong Office:

Room 1902, 19/F Asia Orient Tower,
33 Lockhart Road,
Wan Chai, Hong Kong
Tel: +852 24266426
Fax: +852 2426 6427
E-mail: hongkong@lehmanbrown.com

Macau Office:

No.367, Avenida da Praia Grande,
"Keng Ou" Commercial Building #16,
A & B, Macau
Tel: +853 28 372369
Fax: +853 28 371884
E-mail: macau@lehmanbrown.com

Tianjin Office:

Unit 2901 - 104, The Exchange Tower 2,
189 Nanjing Road, Heping District,
Tianjin 300051, China
Tel: +86 22 2318 5056
Fax: +86 22 2318 5001
E-mail: tianjin@lehmanbrown.com

1. Index

1. Index	5
2. Disclaimer.....	7
3. Introduction	7
4. The Country.....	8
4.1. Geography	8
4.2. Economy.....	8
4.3. Currency and Banking.....	9
4.4 Government/Politics.....	10
4.5 Legal System	11
5. Forms of Business Enterprise.....	12
5.1. Sole Proprietorship	12
5.2. Partnership.....	12
5.3. Branches of Foreign Companies	12
5.4. Limited Companies	13
5.5. Trusts	14
5.6. Co-operatives.....	14
6. Direct Taxation.....	15
6.1. Income Tax - Individuals	15
6.2. Income Tax – Companies.....	16
6.3. Payroll Tax	18
6.4. Fringe Benefit Tax.....	18
6.5. Tax on Capital Gains.....	18
6.6. Withholding Taxes	19
6.7. Gifts Tax.....	19
6.8. Death Duties / Estate Duties.....	19
7. Exchange Controls	20
7.1. Repatriation of Earnings and Royalty Payments	20
7.2. Restriction on amounts that can be taken out of the country	20
7.3. Local Borrowing.....	21
7.4. Emigrants.....	21
7.5. Inheritances	21
7.6. Immigrants.....	21
7.7. Contract Workers/Temporary Residents.....	21
8. Other forms of Taxation – Indirect Tax	22
8.1 Sales Tax / Turnover Tax	22
8.1.1 Value Added Tax.....	22
8.1.2. Business Tax.....	23
8.1.3. Consumption Tax	23

8.2	Stamp Duty	23
8.3	Property Tax	23
8.3.1.	Land Appreciation Tax	24
8.3.2.	Urban Real Estate Tax	24
8.4	Tariffs	24
8.5	Thin Capitalisation rules	25
8.6	Transfer Pricing	25
9.	Labour Relations and Social Security	27
9.1.	Labour Market	27
9.2.	The Right to Work – Chinese Nationals	27
9.3.	The Right to Work – Non-Chinese Nationals	27
9.4.	Labour Regulations	28
9.5.	The Social Partnership – Worker Participation	29
9.6.	The Social Security System	29
10.	Grants and Incentives	30
10.1.	Source of Assistance	30
10.2.	Grants Available and Tax Incentives	30
11.	Quality of Life	31
11.1.	Housing	31
11.2.	Education	33
11.3.	Communication and Transport	34
Appendix A	36
	Rates of tax – individuals	36
Appendix B	39
	- Main allowances	39
Appendix C	40
	- Social Security Costs	40

2. Disclaimer

The information contained in this booklet is for providing general information only and should not be construed as legal advice on any particular matter, whether it is legal, procedural or other, and should not be taken as such. The information is provided by LehmanBrown and whilst we endeavour to keep the information up-to-date and correct. We make no representations or warranties of any kind, express or implied, about the accuracy, reliability, completeness or timeliness of the information, nor does it accept any responsibility arising in any way (including negligence) for errors in, or omissions from the information contained in this booklet. No reader should act or refrain from acting on the basis of any matter contained in it without seeking specific professional advice on the particular facts and circumstances at issue. Any reliance you place on such information is therefore strictly at your own risk.

We would like to point out that currently there is no centralised register or other official source in the PRC where all legislation enacted by central and provincial authorities is made available to public. Legislation or regulations, particularly for local applications, can be enacted without any prior notice or subsequent publicity. As such, it should be appreciated that we may not be aware of the existence of certain new legislation, regulations or amendments.

3. Introduction

This guide is designed to give an insight into doing business in Mainland China together with the relevant background information, which will be of assistance to organisations considering establishing a business there.

It is essential that advice be obtained from local professional sources before any business is undertaken. This booklet contains only brief notes and legislation in force as of **July 2010**.

4. The Country

4.1. Geography

Located in East Asia, on the western shore of the Pacific Ocean, the People's Republic of China (PRC) has a land area of about 9.6 million sq km, and with a population of around 1.33 billion people (mid-2010).

For administrative purposes, China is separated into 23 provinces, 5 autonomous regions and 4 directly administered municipalities. Beijing is the capital of China and located in the north of China.

In addition, China has two Special Administrative Regions (SARs). Following an agreement with the United Kingdom, Hong Kong became the Hong Kong SAR of China on 1st July 1997. Following an agreement with Portugal, Macau became the Macau SAR of China on 20th December 1999. China does not impose the Chinese socialist economic system in these two SARs, and both Hong Kong and Macau exercise autonomy, except in defense and foreign affairs.

4.2. Economy

China is currently one of the world's major economic powers with massive potential. In the 30 years following reform and the 'Open Door Policy' of 1979, China's economy has developed at an unprecedented rate, and that momentum has been held steady into the 21st century.

The gross domestic product (GDP) for 2009 amounted to Renminbi 33,535.3 billion, 8.7 percent higher than that of the previous year.

China's macro economy and financial market will be confronted with more challenges influenced by the current U.S. and European economic crisis. In 2010, China's economy will center around four key terms: inflation, currency policy, trade surplus and stock market.

China is also taking new initiatives to fulfill the promises it made when signing up as a full-fledged member of the World Trade Organization in Year 2001.

4.3. Currency and Banking

The official currency is Renminbi (RMB), which is not freely convertible in international exchange markets.

At present, Chinese financial institutions consist of banking and non-banking financial institutions.

Banking Institutions

The People's Bank of China (PBOC) is China's central bank and is controlled by the state council. It was the sole regulator of the Chinese banking industry, but PBOC now focuses on monetary and macroeconomic policies. To fill the void, a new regulatory body, China Banking Regulatory Body (CBRC) was established in April 2003 as the regulator for the Chinese banking industry.

Banking institutions are principally broken down into commercial banks and policy banks.

1. Commercial Banks

There are four state-owned commercial banks, including: The Bank of China (BOC), Industrial and Commercial Bank of China (ICBC), Agricultural Bank of China (ABC) and China Construction Bank (CCB). They are the major state-owned commercial banks in Mainland China.

2. Policy Banks

The three policy banks in Mainland China are the National Development Bank of China, Import & Export Bank of China and Agricultural Development Bank of China.

In addition to these State-owned banks, there are joint stock banks, foreign banks and local commercial banks. For the big four state owned commercial banks, they have extensive domestic branch networks exceeding 100,000 locations across China. They account for over 60 % of the country's banking assets. For foreign banks, they only account for over 2 % of the banking assets.

After China's entry into the World Trade Organisation (WTO) on 11 December 2001, it facilitated foreign banks to increase their service offerings in China. Starting from 1 January 2002, all foreign banks were allowed to provide foreign currency services in China. Foreign banks can also provide local currency renminbi (RMB) services to local corporations and foreign invested enterprises (FIE).

Non-banking financial Institutions

Non-banking financial institutions include insurance companies, security firms, trust and investment companies, finance companies, leasing companies and credit unions.

Two stock exchanges have been established in Shanghai and Shenzhen.

There are three/**four** principle regulatory bodies governing the **banking and** financial sector in Mainland China:

- China Bank Regulatory Committee together with the People's Bank of China control and supervise the banking sectors
- China Securities Regulatory Committee governs the security industry
- China Insurance Regulatory Committee governs all insurance companies
- SAFE has wide influence over the financial system. It approves foreign exchange receipts and payments, it supervises external debt, and it monitors the foreign exchange activities of financial institutions.

4.4 Government/Politics

The People's Republic of China is a communist state founded on 1st October 1949.

The major state organs of China includes National People's Congress, Presidency, State Council, Central Military Commission, Supreme People's Court, Supreme People's Procuratorate, Local People's Congress and government office, and local government office of autonomous regions.

The National People's Congress (NPC) is the highest organ of state power. The Standing Committee of the NPC is the permanent organ of the NPC. The NPC and its Standing Committee are empowered with the rights of legislation, decision, supervision, election and removal. The National People's Congress members are elected by municipal, regional, provincial people's congresses and the People's Liberation Army to serve five-year terms. Elections last held between December 2007 and February 2008. The next elections are due to be held between late 2012 and early 2013.

The President of the People's Republic of China is the Head of State, as well as the supreme representative of China both internally and externally. The State presidency is an independent State apparatus and a component part of China's State organization. China's system of the head of state is a system of collective leadership. The president is subordinate to the NPC and directly receives instructions from the supreme organ of State power. The current president is Mr. Hu Jintao, and the current Vice President: is Mr. Xi Jinping.

The State Council of the People's Republic of China, namely the Central People's Government, is the highest executive organ of State power, as well as the highest organ of State administration. The State Council is composed of a premier, vice-premiers, State councilors, ministers in charge of ministries and commissions, the auditor-general and the secretary-general.

The Central Military Commission of the People's Republic of China is the highest state military organ with the responsibility of commanding the entire armed forces in the country.

The Supreme People's Court is the highest trial organ in the country and exercises its right of trial independently. It is also the highest supervising organ over the trial practices of local people's courts and special people's courts at various levels.

The people's procuratorates are the legal supervision organs of the state. The prosecution system consists of the Supreme People's Procuratorate, local people's procuratorates and special people's procuratorates such as the military procuratorate.

4.5 Legal System

Judicial organs here mean public-security organs (including state security organs) responsible for investigation, prosecution, trial and execution of cases, the prosecutors, the trial institutions and the custodial system. Judicial organizations here refer to lawyers, public notaries, and arbitration organizations. The latter, though not part of the judicial apparatus, are an integral part and a link in the overall judiciary system.

This system comprises sub-systems for investigation, prosecution, trial procedures, jails, judicial administration, arbitration, lawyers, public notaries and state compensation.

5. Forms of Business Enterprise

5.1. Sole Proprietorship

Is a type of company that has been legally set up inside China and is invested by a PRC natural person. The investor owns the company and all its properties. The owner of the company is liable for an unlimited capacity for its debts to the extent of his personal property.

5.2. Partnership

Is a profit-making organization established within the territory of China according to the Law of China on Partnership Enterprises with their partners associated under a partnership agreement, each making capital contributions, carrying out business operations, distributing profits, undertaking risks and bearing unlimited and joint liability for the partnership enterprise's debts.

The regime of Limited Partnership consists of two kinds of partners: general partners and limited partners. General partners shall execute and manage the firm's affairs and shall bear unlimited liabilities for the debts of the firm. Limited partners would typically be financial investors and shall be prohibited from taking an active managerial role in the firm, limited to the amount of their capital contributions to the limited partnership.

The amended Partnership Law, which came into effect 1st June 2007 allows the establishment of Foreign-invested Partnerships.

5.3. Branches of Foreign Companies

A Representative Office (RO) can be set up by a foreign company to render preparatory services such as liaison, coordination and market research on behalf of its parent company. It is important that a representative office cannot engage in any direct profit-making activities, except for certain industries, such as law, accounting and audit services.

Up to now, the China authorities have only issued regulations governing certain industries such as banking. In this instance, clear regulations govern a foreign company seeking to set up a branch in China.

With the exception of these few industries, the China authorities have not issued unified regulations and application guidelines for establishing branches in the PRC. This can be viewed as a barrier for foreign companies setting up branches in China.

5.4. Limited Companies

Common forms of limited companies for foreign investors include:

- China Holding Company
- Equity joint venture
- Co-operative joint venture
- Wholly foreign-owned enterprise

(a) China Holding Company (CHC)

China Holding Company is a legal entity used by the foreign investor that owns mainland companies' outstanding stock. CHC only owns shares of mainland companies; it does not produce goods or services by itself. A CHC has minimum asset value **US\$30m** within 2 years, total investment within 5 years. It can make strategic RMB investments into subsidiaries, and can carry out HQ functions and charge subsidiaries. If CHC has RHQ status, can provide leasing or financing on own account.

(a) Equity Joint Venture (EJV)

An equity joint venture is a limited liability Chinese legal entity formed by one or more Chinese parties and one or more foreign parties under the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures.

Generally, at least 25% of the joint venture's shares should be held by foreign investor(s). The joint venture will be managed by a board of directors appointed by each side after getting agreement.

Investors in an equity joint venture share profits and losses strictly in accordance with their respective contributions to the registered capital of the venture.

(b) Co-operative Joint Venture (CJV)

A co-operative joint venture is sometimes referred to as a contractual joint venture. The establishment of a co-operative joint venture is governed by the Law of the People's Republic of China on Chinese-Foreign Co-operative Joint Ventures.

It may be formed as a legal person with limited liability, or an entity similar to a partnership. The Chinese and foreign parties shall share earnings or products, undertake risks and losses in accordance with the agreements prescribed in the contractual joint venture contract.

(c) Wholly Foreign Owned Enterprise (WFOE)

A wholly foreign owned enterprise is 100% owned by foreign investors. The establishment of a wholly foreign-owned enterprise is governed by the Foreign Enterprise Law. The branches of foreign enterprises and representative offices of foreign enterprises are excluded here.

EJV, CJV, WFOE can carry out (1) Manufacturing (2) Trading (wholesaling and retailing) (3) Services, subject to restrictions under foreign investment industrial catalogue.

5.5. Trusts

Under the China Trust Law, in order to qualify as trustees, organizations must be governed by the Regulations of Trust and Investment Companies issued by the People's Bank (the Central Bank of Chinese central authority).

5.6. Co-operatives

Normally, it's a form of economic units in the countryside of China, the form of which is not applicable to foreign investors. It refers to a form of collective economic units where capital is mainly contributed by employees and certain proportion of capital is contributed by other PRC entities.

6. Direct Taxation

6.1. Income Tax - Individuals

Individual Income Tax Law (IIT Law) provides that the IIT shall be levied on the following income:

- (a) Wages and salaries;
- (b) Income from individual industrial and commercial household;
- (c) Income from contracting for or leasing the operation of enterprises or institutions;
- (d) Income for personal services;
- (e) Income from author's remuneration;
- (f) Royalties;
- (g) Interest, dividends and bonuses;
- (h) Income from lease of property;
- (i) Income from transfer of property;
- (j) Casual income; and
- (k) Other income specified as taxable by the Ministry of Finance.

IIT is levied on wages and salaries at the progressive rates from 5% to 45%. Starting from 1st March 2008, a monthly deduction of RMB 2000 for local Chinese staff is allowed in calculating the amount of IIT payable on wages and salaries. For expatriates, the monthly deduction is RMB 4800.

Where a non-PRC domiciled individual working in the PRC receives wages and salaries from a foreign employer and the payment is not ultimately borne by an establishment in the PRC, his IIT exposure depends on the length of residence in the PRC in a year as follows:

<u>Stay in the PRC</u>	<u>Taxable income</u>
Less than 90 days (Note 1)	Exempted. If salaries and wages ARE NOT borne or paid by PRC establishments.
More than 90 days (Notes 2&3) but less than 1 year	Portion of global salaries and wages, related to number of days present in the PRC.
1 year or more but less than 5 years	Global salaries and wages, except income related to services outside the PRC and borne and paid by non-PRC entities

More than 5 years	Global income
-------------------	---------------

Notes

1. If a double taxation agreement applies, the applicable period is 183 days.
2. The applicable PRC tax payable for global salaries and wages is computed first; it is then apportioned by number of days present in the PRC in the month.
3. In determining whether an individual is staying in the PRC for a full year, a single temporary absence from China not exceeding 30 days or multiple absences not exceeding a total of 90 days within a year are not considered as absence from the PRC.

Special formula is adopted for calculating IIT liabilities for senior management working in China.

An individual will be required to file IIT returns with the local tax office and pay tax on a monthly basis. Generally speaking, the employer should act as the withholding agent for the employees within seven days after each month.

For detailed IIT rates please refer to Appendix A.

6.2. Income Tax – Companies

China introduced the new Corporate Income Tax Law (CIT Law) on 16th March 2007. Effective from 1st January 2008, all domestic enterprises and Foreign Investment Enterprises (FIE) including EJV, CJV and WFOE, are subject to Corporate Income Tax (CIT) at a unified tax rate of 25%.

Enterprises that enjoy a lower tax rate of 15%, such as those established in Special Economic Zones, under the old tax regime will gradually increase the tax rate to 25% within 5 years provided that they obtained their business licence prior to 16th March 2007.

<u>Year</u>	<u>Tax rate</u>
2008	18%
2009	20%
2010	22%
2011	24%
2012	25%

Enterprises that enjoy the tax rate of 24% will be subject to the tax rate of 25% effective from 1st January 2008.

A foreign enterprise (FE) without an establishment in the PRC is subject to withholding tax at a rate of 10% on passive income (such as dividend, royalty, rental income, etc.) derived from the PRC.

The CIT law introduced a tax resident enterprise (TRE) concept where a FE with the place of effective management in China shall be considered as a TRE and subject to income tax in China on its worldwide income.

Furthermore, a non-TRE with an establishment or place in China shall be subject to China income tax on income derived by that establishment or place from sources within China and on income derived from sources outside China, which is effectively connected with such establishment or place.

Tax losses can be carried forward for 5 years but cannot be carried back.

The calendar year is used as tax year. An enterprise may adopt its own accounting date with the approval of the tax bureau.

Accounts are to be prepared in Chinese or in Chinese with a recognised foreign language.

FIEs and FEs with establishments in the PRC should file CIT returns quarterly and make advanced payment of tax within fifteen days from the end of each quarter. An annual return together with audited accounts should be filed within five months after the tax year.

Exemptions

Previous tax holiday of 2 years' exemption and 3 years' 50% relief generally granted to long-term (10 years or more) production-oriented foreign investment enterprises is no longer available.

Qualified small-scale enterprises can enjoy 20% corporate income tax rate.

Qualified "New & high technology enterprise" can enjoy 15% corporate tax rate. The recognition for "new & high technology enterprise" will be performed by special authority, and the procedure will be stricter.

Qualified R&D expenditure can apply for 50% super deduction off tax.

Disabled employees salary expenditure can apply for 100% super deduction off tax.

When a venture capital enterprise invests in the shareholdings of private small or medium-sized new and high tech enterprises for more than two years, 70% of the investment amount may be deducted from taxable income in the year that the two-year holding is completed. Unutilized deductions may be carried forward to future tax years.

Incentives

Tax incentives are provided to enterprises engaged in industries that are encouraged by the State (such as: agricultural, forestry, animal husbandry and fishery industries are subject to full exemption). Several others industries are allowed a 50% reduction on the normal 25% tax rate.

For qualifying major State-supported public infrastructure projects and qualifying environmental protection projects, water or energy saving projects, will be granted from the first revenue producing year a three-year exemption followed by a three-year 50% reduction from the normal 25% tax rate.

The qualified transfers of technology by resident enterprises shall be exempted from income tax with a cap of RMB 5 million for income earned in a taxable year from the transfer of ownership of technologies and any excess shall be subject to a 50% reduction from the normal 25% tax rate.

Resource comprehensive utilisation enterprises shall only file 90% of the qualified products revenue for taxable calculation.

For environmental protection, water or energy saving and safety production, 10% of the equipment investment amount may be deducted from taxable income in the year. Unutilized deductions may be carried forward for up to five tax years.

6.3. Payroll Tax

When an employee receives salary from an employer, the income is subject to Individual Income Tax in China. For details, please refer to Section 6.1.

6.4. Fringe Benefit Tax

When an employee receives benefits from an employer, the taxable benefits are subject to Individual Income Tax in China. For details, please refer to Section 6.1.

6.5. Tax on Capital Gains

To enterprise, the earnings on transfer of shares or equity shall be subject to CIT in China.

If an enterprise sells real estate in China, it would be subject to CIT and land appreciation tax (For land appreciation tax, please see Section 8.3.1).

6.6. Withholding Taxes

In general withholding tax refers to income tax on foreign enterprises that have no establishments or venues in China but which derive PRC-sourced income, such as dividend, interest, rental, royalties, capital gains, etc.

The payer, on behalf of the income beneficiary shall withhold an income tax of 10% on such incomes.

6.7. Gifts Tax

In China, there are no specified tax regulations on Gifts tax.

When an enterprise receives the gifts, it shall be subject to income tax, and the value of the gifts shall be valued based on the amount of the gifts indicated on the invoice; if there is no invoice obtained as supporting document, the gift shall be valued at the market price.

6.8. Death Duties / Estate Duties

Currently, the Chinese authorities have not imposed death duties or estate duties.

7. Exchange Controls

In China, the State Administration of Foreign Exchange (SAFE) monitors foreign exchange.

7.1. Repatriation of Earnings and Royalty Payments

After-tax profit generated by foreign invested enterprises is can be remitted outside the PRC provided that the related PRC taxes have been settled. It should follow the relevant procedures regulated by State Administration of Foreign Exchange (SAFE).

Transactions below US\$30K would be without tax bureau approval at the time of payment. Correct paperwork is needed for foreign companies to transfer the money out for product purchase and services.

For companies not operating in China but needing to receive revenue in RMB, escrow services can be used. Escrow providers will arrange transfer after applicable taxes.

Offshore services are subject to 5% business tax starting from 1st January 2009. If the project is over 183 days, 10% withholding tax off is also levied.

Royalty fees can be remitted out of the PRC. The royalty contract should be registered in relevant authorities. The income recipient is liable to Business Tax and Withholding tax. The payer has the tax withholding obligation before remitting the royalty fee to the income recipient. Royalties including rental and interests are subject to 5% business tax followed by 10% withholding tax, a total of 15% or 10% credit can be obtained in their home country.

Dividends are subject to withholding tax lower than 10% and treaty stipulation.

China has tax treaties with over 70 countries (*86 countries from SAT*) and is an observer member of the Organisation for Economic Co-Operation and Development (OECD).

7.2. Restriction on amounts that can be taken out of the country

The person leaving China with a cash equivalent amount of USD 5,000 or less (including USD 5,000), need not apply for approval before leaving China.

The person leaving China with the cash equivalent amount ranging from USD 5,000 to USD 10,000 (including USD 10,000) should apply to the bank for the relevant approval.

The person leaving China with the cash equivalent amount more than USD 10,000 should apply to the competent SAFE for the relevant approval.

7.3. Local Borrowing

There is no restriction for foreign invested companies to borrow money from the banks located in China. However, the foreign loan is limited to the difference between the total investment and registered capital. FIE's registered capital should be contributed in accordance with the time schedule specified by the relevant authority.

7.4. Emigrants

For the people emigrating from China, if their saving needs to be converted into foreign exchange and remitted outside of China, they need to follow the related remittance requirements/procedures issued by SAFE.

7.5. Inheritances

Inheritances are required to be supported with notarized documents issued by a China embassy in the respective country and tax payment certificate and other relevant documents, and should follow the related requirements and procedures issued by SAFE.

7.6. Immigrants

For the people immigrating into China, if their savings need to be remitted into China and be converted into RMB, they need to follow the relevant requirements/procedures issued by SAFE.

7.7. Contract Workers/Temporary Residents

The salary or other income sourced in the PRC by foreign contract workers and temporary residents are allowed to be remitted outside China provided that the relevant tax exemption / tax payment certificates are obtained and the related remittance requirements/procedures are completed.

8. Other forms of Taxation – Indirect Tax

8.1 Sales Tax / Turnover Tax

On 1 January 1994, mainland China has implemented the turnover tax system, which comprises of value added tax (“VAT”), business tax (“BT”) and consumption tax (“CT”).

8.1.1 Value Added Tax

According to China Provisional Regulations for Value Added Tax ("Provisional Regulations"), VAT applies to individuals and enterprises on importation of movable goods into mainland China, sale of movable goods in mainland China and provision of processing and repairing services in mainland China.

Starting January 2009, China’s VAT system changed from “production type “ to “Consumption type” system where the VAT incurred on purchasing fixed assets are allowed to be credited in the current period.

Rates:

- a. 17%- Basic rate
- b. 13%- Grains, edible plant oil, utilities, publications and certain agricultural products
- c. 0%- Export (pursuant to tax circulars issued subsequent to the Provisional Regulations. VAT export refund rates for export range from 0% to 17% depending on the specific nature of goods. Thus, VAT on export sale in effect does not apply 0% rate for certain items.)

VAT Payable:

VAT payable = Output VAT - Input VAT during the period

Output VAT = Taxable income x Tax rate

It is noted that not all input VAT paid is deductible or refundable in the determination of the amount of VAT payable.

Small-scale taxpayers as defined in the Provisional Regulations are subject to VAT at 6% on their taxable income without any deductions of input VAT. According to the tax Circular Caishuizi [1998] 113, VAT rate for small-scale commercial VAT payers is further reduced to 4%.

8.1.2. Business Tax

Any individual or entity that engages in the provision of services (other than processing and repairing), transfer of intangible assets or sells immovable properties in China is subject to business tax in accordance with the PRC Provisional Regulations for Business Tax.

A foreign service provider is subject to 5% business tax on service provided to a Chinese client regardless of where the place of service provision is (such as 100% provided offshore) effectively from January 2009.

Rates: 3% - 20% depending on the nature of services. The majority of services are taxed at 3% or 5%.

8.1.3. Consumption Tax

CT is levied on individuals or entities that manufacture or subcontract to process chargeable goods in the PRC or import into the PRC chargeable goods as specified in the PRC Provisional Regulations for Consumption Tax. Chargeable goods include cigarette and tobacco, alcoholic drinks and alcohol, cosmetics, firecrackers and fireworks, product oil, motor vehicle tyres, motorcycle, motor car, golf balls and equipment, luxurious watches, yachts, disposable wooden chopsticks and wooden floorboards, precious jewellery, precious jade and stones and jewellery made with gold, silver and gold and silver mixed with alloys.

Rates: 3% - 45% depending on the chargeable goods. Export sale is exempt from CT. Some goods are taxed based on their volume, such as yellow spirits and beer.

8.2 Stamp Duty

Documents subject to stamp duty include contracts or documents in the nature of a contract in regard to purchase and sale transactions, contracted processing, survey and design contracts for engineering and construction, contracted construction projects, property leasing, goods transportation, warehousing, loans, property insurance, technical contracts; documents for transfer of property title; business account books; certificates and licences; and other taxable documents determined by the Ministry of Finance.

8.3 Property Tax

In Mainland China, the property tax comprises of Land Appreciation Tax and Urban Real Estate Tax.

China is likely to introduce a new property tax on residential housing to cool down real estate prices. The levy will be imposed on a trial basis in Beijing, Shanghai, Chongqing and Shenzhen.

China has no such levy on residential property, but has imposed a 1.2 % tax on 70-90 % of the value of commercial real estate.

Details of the new tax are not yet finalised, it does not yet confirm whether it will be levied against all homes or only levied on additional residences purchased by an individual home-buyer beyond the first property.

The timetable to introduce this new tax is not yet decided, as the government bodies, including: People Bank of China, Finance Ministry and State Administration of Taxation are still working out when to implement the tax.

8.3.1. Land Appreciation Tax

Land appreciation tax is levied on units and individuals on incomes derived from the transfer of state-owned land use rights, buildings and their attached facilities, and are assessed at a prescribed tax rate on the basis of the appreciation amount derived by the taxpayer from the transfer of real estate. The tax rate ranges from 30% to 60%. There are specific guidelines setting out the deduction items for calculating land appreciation tax.

8.3.2. Urban Real Estate Tax

Generally speaking, real estate owned by foreign invested companies and foreign nationals is taxed at the rate of 1.2% for self-use purposes after making a one-off deduction of 10%-30% of the original value of the property, or at the rate of 12% or 18% of rental income. Urban real estate tax is generally assessed annually and paid in installments.

8.4 Tariffs

Customs duty is levied by Customs on commercial commodities or articles importing into or exporting out of China's national boundaries or customs territories.

For foreign invested projects which are classified in the “Encouraged Category” under the latest Foreign Investment Industrial Catalogue, the imported equipments provided by the foreign investor as capital contribution are exempted from paying customs duty and import VAT provided the equipments meet the specific requirements stipulated by relevant regulations.

Foreign enterprises are allowed to carry on processing trade in the PRC. Provided the enterprises meet the relevant requirements and are approved by the government, the imported material to be used for production of export products is exempted from paying customs duty

and import VAT in the case that the finished products will be exported to overseas customers within a specified period.

The imported machines used as capital contribution, imported materials and finished products, semi-products, defective products, and scraps under processing trade arrangements should be treated as bonded goods and be strictly supervised by the customs. To sell the machines/goods within the PRC, or to lease the bonded machines should be first approved by the customs and customs duty and import VAT (if applicable) should be settled accordingly.

8.5 Thin Capitalisation rules

Minimum Ratio of Registered Capital to Total Investment of a FIE is as below.

Total Investment (US\$ million)	Minimum Ratio or Registered Capital
Less than 3	70% of total investment
over 3 less than 4.2	US\$2.1 million
4.2 to 10	50% of total investment
over 10 less than 12.5	US\$5 million
12.5 to 30	40% of investment
over 30 less than 36	US\$12 million
from 36	1/3 of total investment

8.6 Transfer Pricing

The new corporate income tax law states that related party transaction shall be at arm's length and is required to be disclosed in enterprise income tax annual return. The tax authority has the right to make tax adjustments if the transaction is considered not following the arm's length principle.

The audit targets for transfer pricing include tax payers having:

- Significant numbers of related party transactions or many types of related party transactions;
- Long-term losses or marginal or fluctuating profitability;
- Profit level that is lower than the industry norm;
- Profit level that is lower than that of other group members;
- Profit level that is inconsistent with the taxpayer's functions and risks;
- Transactions with related parties located in tax havens;
- Failed to declare related party transactions in the annual tax return;
- Failed to prepare required contemporaneous documentation; and
- Failed to follow the arm's length principle.

A detailed transfer pricing disclosure form together with annual corporate income tax returns is required prior the end of May in 2009.

Contemporaneous transfer pricing documentation is required to be submitted within 60 days upon request by the tax authorities. If the total amount of related-party purchase and sales are more than RMB 200M per annum, and other related-party transactions totaling are more than RMB 40M per annum; the documents must additionally be certified authentic with official stamps and signature. The information must be notarized or certified true by certified public accountants, when information is submitted with respect to overseas-related party and transactions,

For enterprises that were incorporated in China by International Corporations that engaged in single processing (supplied materials processing or imported materials processing), distribution, research and development, undertake limited functions and risks, they should not assume any risks or losses caused by wrong decision, marketing of financial crisis. Due to the transfer pricing principle of matching risk and profit, the profit margin of these enterprises should be kept at a certain level.

Contemporaneous transfer pricing documentation is also required for above enterprises if they are loss-making and should be remitted to tax authority before 20 June of the following year.

Enterprises are allowed to enter an advance pricing arrangement after negotiating with tax authority about the pricing standard and calculation method. Such enterprises are exempted from submitting transfer pricing documents.

Failure to submit required documents will be subject to penalties. If the taxpayer refuses to submit the documents or submits false documents, the tax authority has the right to adjust the taxable income. Where an underpayment arises, the interest charged will be computed in accordance with the standard RMB loan interest rate for the same period, plus an additional 5%.

9. Labour Relations and Social Security

9.1. Labour Market

China is the biggest developing country with the largest population in the world.

The labour force for 2009 amounted to 813.5 million. With 39.5% labour contributed in agriculture, 27.2% labour contributed in industry and 33.2% labour contributed in services.

The Labour cost in China is comparatively lower than the cost in United States, Europe, Japan and other developed countries.

9.2. The Right to Work – Chinese Nationals

China has always attached importance to the protection of the right of citizens to work and the rights and interests of workers, regarding this as an important aspect of its efforts to safeguard human rights.

In order to implement the labour regulations in China, a labor contract system, a minimum-wage system and a labor supervision system have basically been established in the whole country.

9.3. The Right to Work – Non-Chinese Nationals

Expatriates working in China should have a current work Visa, working permit and resident permit from the relevant authority.

Expatriates based in Mainland China can apply for Visas through their local Public Security Bureau (PSB). For individuals based outside of Mainland China, Visa information can be obtained from the Chinese Embassy or Chinese Consulate.

1. **Employment Visa (Z Visa)** is issued to an expatriate, who comes to China for employment and his accompanying family members. An employment visa valid for two years will be issued to Investors or Legal Representatives of the foreign enterprise and their accompanying family members. An employment visa valid for one year will be issued to other expatriates and their accompanying family members.

2. **Business Visa (F Visa)** is issued to an expatriate, who is invited to China for a visit, an investigation, a lecture, to do business, scientific-technological and culture exchanges, short-term advanced studies or internship for a period of no more than six months. Zero/single/double-entry visa with a validity under six months or a 6/12-month multi-entry visa can be issued with no limit to the number of times, subject to a maximum duration of 12 months' consecutive stay from date of entry such visas can be issued.

3. **Student Visa (X Visa)** is issued to an expatriate, who comes to China for study, advanced studies or intern practice for more than six months. If the expatriate, who comes to China to study or intern practice for a period of less than six months shall apply for an F visa. Term of validity for student visa is granted in accordance with the duration of study in China. The final decision is determined by the school in case of discrepancy between the Admission Confirmation and an earlier school letter.

4. **Tourist Visa (L Visa)** is issued to an expatriate, who comes to China for sightseeing or visiting family members or for other personal affairs.

Time for Approval

Approval upon submission of necessary documents will take five working days, not including Saturday or the day application is submitted.

9.4. Labour Regulations

The Standing Committee of the National People's Congress passed the new Labour Contract Law ("Labor Contract Law") on 29 June 2007, which became effective on 1 January 2008. The Labour Contract Laws applies on all enterprises, private and non-economic entities in China.

Under the Labour Contract Law, written labour contracts are mandatory required documents to establish labour relationships. There are four types of labour contracts, including:

- a. Contracts with fixed period of service;
- b. Contracts with unfixed period of service;
- c. Contracts where the period of service equal to the period required to complete the tasks;
and
- d. Collective contract.

The Labour Contract Law contains details on compulsory limits on probation period under different circumstances. It also provides details on situations where the employers and employees may terminate the contracts and the relevant compensations.

9.5. The Social Partnership – Worker Participation

According to Labor Union Law of China, all of the employees in the enterprises, institutions and authorities within the borders of China, who take the wage as their main source of income, enjoy the rights of participating and organizing the labor union according to law despite of their nationalities, races, sexes, professions, religious beliefs and levels of education.

9.6. The Social Security System

The Social Security System includes social insurance, social welfare, the special care and placement system, social relief and housing fund services. The social insurance is the core of the system. It is a mandatory and non-profit system, which administered by Ministry of Human Resources and Social Security.

All enterprises must register with the local social insurance institution, participate in social insurance schemes and pay social insurance premiums monthly. The portion of premium payable by individual workers will be withheld and deducted from their salary and paid to the relevant authorities by the enterprises.

Employers and employees must participate in five social insurance schemes, including: unemployment insurance, old age pensions, medical treatment, work-related injuries and maternity care. The premiums for old age, medical and unemployment insurance are jointly contributed by the enterprise and the employee; while the premiums for work-related injuries and maternity care insurance are the sole responsibilities of the enterprise.

Apart from these mandatory subsidies, employers must provide living subsidies and medical treatment allowances for all PRC employees. These schemes must be paid out of an employee bonus and welfare fund, which is created from the employer's after-tax profits. For details, please refer to Appendix C.

10. Grants and Incentives

10.1. Source of Assistance

The state/local government authorities and some non-profit units that may provide assistance for your business in China consist of:

- The local ministry of commerce and its local bureaus;
- The Administrative Committees of Free Trade Zone, Economic and Technology Development District, Export Processing Zone, Bonded Logistic Park, etc; and
- Local chambers of commerce, etc.

10.2. Grants Available and Tax Incentives

China is offering various tax incentives to different industry and activities provided that the industry and activities meet the conditions and requirements. We set out the following example for reference.

CIT of an Enterprise may be reduced or exempted on the following income items:

- Income derived from agricultural, forestry, animal husbandry and fishery projects;
- Income derived from investment and operation of public basic infrastructure projects that are specifically supported by the State;
- Income derived from environmental protection, energy and water conservation projects which meet certain prescribed criteria;
- Income derived from the transfer of technology, which meets certain prescribed criteria.

Qualified Hi-Technology company may enjoy lower CIT tax rate of 15% in China.

Tariffs incentive. For details, please refer to Sections 8.6.

11. Quality of Life

11.1. Housing

After the overheated property market in China from 2006 to 2009, a number of measures taken by China to cool down the housing market have been effective, the property market is cooling down.

1. Tightening Policies in relation to Real Estate Financing

Bank Loans

China Banking Regulatory Commission (CBRC) announced on 26 March 2010 that banks must not grant new loans to property developers that have been involved in acts of illegal land reservation. If any loans have already been granted to such developers, the relevant banks are required to take effective measures to minimise the risk of non-performing loans. Also, banks may not approve new credit for 78 centrally-administered state-owned enterprises whose core business is not property development, and who appear on the list of the State-owned Assets Supervision and Administration Commission (SASAC), except grant mortgage loans for ongoing construction projects,

Insurance Funds

The China Insurance Regulatory Commission (CIRC) has reaffirmed that insurance funds are forbidden from being invested in residential property, from being invested in commercial property directly or from participating in any property development.

Issuance of Shares

The State Council has required the China Securities Regulatory Commission (CSRC) to suspend its approval for property developers who have been involved in property hoarding, to issue their IPOs.

2. Stricter Conditions for Personal Lending

Restrictions on Mortgages

Stricter conditions have been imposed on getting mortgage loans by private purchasers in order to discourage private purchasers to invest in residential properties.

A mortgage loan for a family's first residential property requires a minimum down payment of 30% of the purchase price where the property has a gross construction area of 90 sq.m. or above

A mortgage loan for a family's second residential property requires a minimum down payment of 50% of the purchase price, and the interest rate for the mortgage loan must be at least 1.1 times the People's Bank of China benchmark interest rate.

For cities, in which the property market has overheated, banks are required to reject a mortgage loan for a family looking to purchase a third residential property.

Banks are required to reject purchaser's mortgage loan for a residential property, if he wants to purchase the property in a city where he does not live, and for which he cannot provide a certificate to show tax or social insurance payments for one year or above.

3. Market Supervision

Strict Control over Land Acquisition

Stricter conditions for the grant of land and relevant default clauses must be included in the land grant contract.

The land grant price cannot be lower than 70% of the benchmark price, and developers must pay a deposit of at least 20% of the minimum land grant price when participating in land auctions.

Developers are forbid from taking part in land auctions for a certain period if they are incapable of performing their obligations under the land grant contract.

The land grant contract must be entered into within 10 working days after the land auction procedure has been completed. If the developer fails to sign the land grant contract within 10 working days, the land will not be granted to such developer and the deposit cannot be refunded.

50% of the land price must be paid within 1 month of the execution of the grant contract. The remaining amount must be paid no later than one year after the contract date.

Hainan has implemented an even stricter regulation. The land price must be paid up within 60 days after the land grant contract takes effect.

Restrictions on Presale of commercial building

All developers must submit their presale proposal to the government and get the relevant government approvals before they are allowed to engage in any activities related to the presale of commercial housing.

Once a buyer has reserved a unit, it is not allowable for the buyer to transfer the unit to another person until construction of the building has been completed. If any key detail in the presale proposal has been changed, developers must file the change with the government and announce this change to the public as well.

Forced Exit from the Market

At the end of March, SASAC ordered that all 78 centrally administered state-owned enterprises whose core business is not property development to withdraw from the property market, after they have completed their current property projects. All 78 central enterprises were also required to submit their proposals to the central agency by explaining the plan to sell or transfer their real estate businesses.

4. Tax

Business Tax Adjustment

According to a circular⁴ jointly issued by the Ministry of Finance and the State Administration of Taxation, starting from 1 January 2010 individuals may be subject to business tax on the sale of residential real estate in accordance with enhanced criteria as follows:

- 1) If an individual sells “non-ordinary” residential property which has been held for less than 5 years, the entire sales revenue is subject to business tax of 5%;
- 2) If an individual sells “non-ordinary” residential property which has been held for more than 5 years, or if an individual sells “ordinary” residential property which has been held for less than 5 years, business tax is levied on the difference between the purchase price and sale price;
- 3) If an individual sells “ordinary” residential property, which has been held for more than 5 years, business tax is exempted.

Under this circular, the main change is to increase the threshold from 2 to 5 years.

11.2. Education

The Chinese government offers 9 years of obligatory education free from tuition.

China experienced a fast development in education. More and more people now have chance to go to college, along side more and more institutions now can offer higher level degrees such as MBA, EMBA, MPA, etc.

International cooperation and exchanges in education have been increasing year by year. China has the most students studying abroad in the world.

According to United Nations Development Programme Report 2009, literacy in China is 93.3% of total population, in which people aged 15 and over can read and write. According to 2006 CIA factbook statistics, the total population has 11 years school life expectancy.

The PRC government education expenditure was 3.48 % of GDP in 2008. Ministry of Education (MOE) will plan to raise the proportion of government education expenditures to 4 % of GDP in 2012.

According to China National Institute for Educational Research, the competitive strength of China's educational system was ranked 29th among 53 countries.

11.3. Communication and Transport

A comprehensive transportation system has been built up in China. It consists of railways, highways, aerial and river/ocean transportation.

In 2009, the total number of airports within China is 482, ranking it no.15 in the world in terms of airports.

In 2008, the total length of the railway network is 77,834 km, which makes the railway network the 3rd largest in the world. The total length of navigable rivers, canals, and other inland bodies of water is 110,000 km, which is the world's largest water transport network within a nation.

According to a 2007 statistic, the total length of the road network within China is 3,583,715 km (includes 53,913 km of expressways), which is the second largest in the world.

The usage of mobile phones, internet and telephones is widespread within China, which makes it convenient for people to communicate with each other either inside China or outside China.

For telephone usage, according to 2007 statistic, the total number of telephone lines in use was 365.6 million making it the largest telephony network in the world within a nation. For mobile phones, total number of mobile telephone subscribers is 634 million, the highest amount of users in the world.

Starting from the summer of 2008, China begun a major restructuring of its telecommunications industry, resulting in the consolidation of its six telecom service operators to three, China Telecom, China Mobile and China Unicom, each providing both fixed-line and mobile services.

For Internet Service Providers, according to 2009 statistics, the total number of internet hosts is 14.156 million (2009) ranking it 7th largest in the world. For internet user, according to a 2008 statistic, the total number of internet user is 298 million meaning the largest single concentration of internet users in the world.

Appendix A

Rates of tax – individuals

Taxable Items, Tax Rates and Deduction Standards

- Income from wages and salaries**

Income from wages and salaries is taxed at progressive rates ranging from 5% to 45%.

Level	Monthly Taxable Income (RMB)	Tax Rate	Quick Deduction (RMB)
1	500 or less	5%	0
2	Portion from 500 to 2,000	10%	25
3	Portion from 2,000 to 5,000	15%	125
4	Portion from 5,000 to 20,000	20%	375
5	Portion from 20,000 to 40,000	25%	1,375
6	Portion from 40,000 to 60,000	30%	3,375
7	Portion from 60,000 to 80,000	35%	6,375
8	Portion from 80,000 to 100,000	40%	10,375
9	Portion from 100,000 upwards	45%	15,375

Taxable income: Starting 1 March 2008, a monthly deduction of RMB2,000 for local Chinese staff is allowed in calculating the amount of IIT payable on wages and salaries. For expatriates, the monthly deduction is RMB4,800.

Method of computation: Monthly tax payable = monthly taxable income x applicable tax rate - quick deduction

- Income from remuneration of personal services performed by an independent contractor**

Income from the remuneration of personal services performed by an independent contractor is taxable on each payment, where proportional tax rate of 20% applies to each payment not excessive of RMB20,000. For remuneration in a single payment in excess of RMB20,000,

extra tax will be levied. For the part of taxable income exceeding RMB20,000 but less than RMB50,000, after calculating the tax payable, an additional 50% on the tax payable will be levied; and for the part exceeding RMB50,000, an additional 100% on the tax payable will be levied.

- **Income from author's remuneration**

Income from author's remuneration is taxable on each payment for every publication or release. For remuneration received in each payment of less than RMB4,000, a deduction of RMB800 is allowed for expenses. For each payment of RMB4,000 or more, a deduction of 20% is allowed for expenses and the remaining amount is the taxable income. Tax payable is computed at a rate of 20%, with a further deduction of 30% on the amount of tax payable.

$$\begin{aligned}\text{Taxable income} &= \text{income from taxable item} - \text{RMB800 (or income from taxable item} \times 20\%) \\ \text{Tax payable} &= \text{taxable income} \times 20\% \times (1 - 30\%)\end{aligned}$$

- **Income from royalties and property leasing**

Such income is taxable on each payment. For remuneration received in each payment of less than RMB4,000, a deduction of RMB800 is allowed for expenses. For each payment of RMB4,000 or more, a deduction of 20% is allowed for expenses. The remaining amount will be taxed at 20%.

$$\begin{aligned}\text{Taxable income} &= \text{income from taxable item} - \text{RMB800 (or income from taxable item} \times 20\%) \\ \text{Tax payable} &= \text{taxable income} \times 20\%\end{aligned}$$

- **Income from transfer of property**

Income from the transfer of property is taxed at a rate of 20%.

$$\begin{aligned}\text{Taxable income} &= \text{income from transfer of property} - \text{original value of property} - \text{reasonable} \\ &\quad \text{expenses} \\ \text{Tax payable} &= \text{taxable income} \times 20\%\end{aligned}$$

- **Income from interest, dividends and bonuses, contingent income and other income**

The applicable tax rate is 20%.

$$\text{Tax payable} = \text{income from each payment} \times 20\%$$

- **Income from interest on savings deposits**

Income from interest accrued before 31 October 1999 is not subject to individual income tax; income from interest on savings deposits accrued from 1 November 1999 to 14 August 2007

is taxed at the proportional rate of 20%; income from interest on savings deposits accrued after 15 August 2007 is taxed at the proportional rate of 5%; income from interest on savings deposits accrued after 8 October 2008 is free of tax.

Appendix B

- Main allowances

The following expense reimbursements for expatriates are non-taxable for PRC IIT provided the allowances amount are reasonable and approved by tax authorities with valid supporting invoices.

- Housing reimbursement
- Medical and laundry expenses
- Home trips
- Language courses and education expenses in the PRC
- Relocation allowance

Appendix C

- Social Security Costs

China's social security benefits consists' of pension, unemployment insurance, medical insurance, industrial injury insurance and maternity insurance.

Pension and medical insurance should be borne by both the employer and the employee at a certain percentage of the gross salary. The contribution ratio by employer and employee varies from city to city. The highest base for calculating the pension and medical insurance should not exceed certain times (usually 3 times) of the municipal average salary. Unemployment insurance, industrial injury insurance and maternity insurance should be fully borne by the employer.

It is suggested to consult a professional's advice prior to exercising the social security scheme.



www.mgiworld.com