



Investing in the People's Republic of China

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Agenda

- **Macroeconomic and foreign investment overview**
- **Holding and investment structures**
- **Regulatory control**
- **Foreign exchange control**
- **Overview of China tax**

Macroeconomic and Foreign Investment Overview

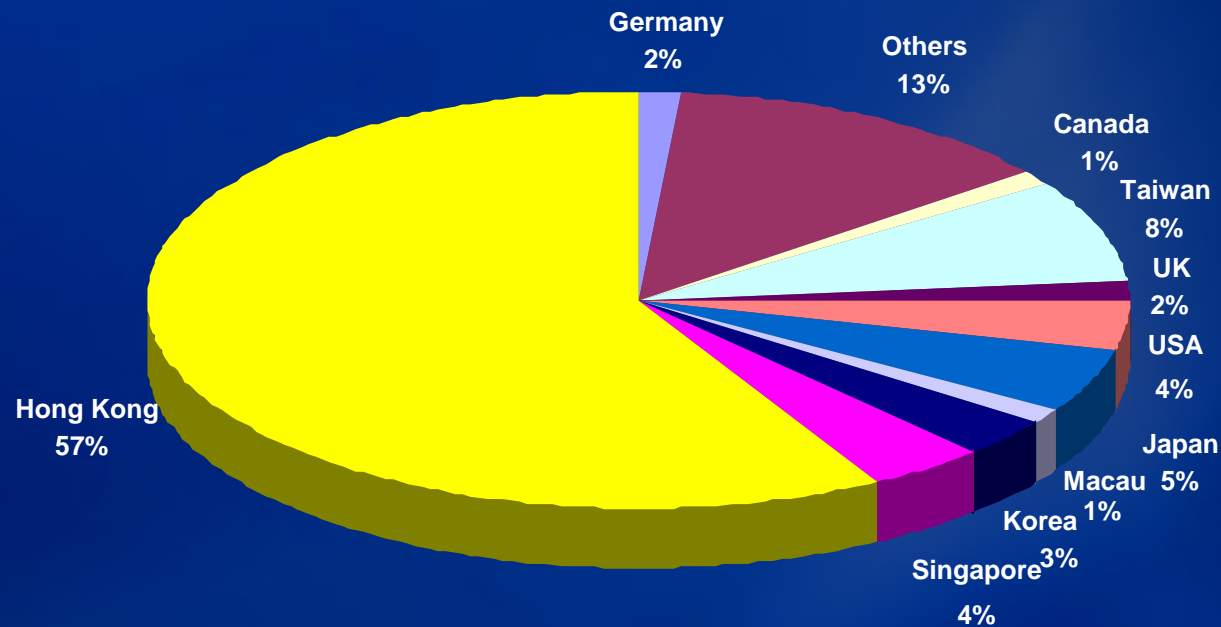
Macroeconomic Overview of China

- **Fiscal and monetary policy shift**
 - **From: Maintain smooth economic growth during economic crisis AND curb deflation**
 - **To: Boost economic growth**

	2008 (average)	2009 Q1	2009 Q2	2009 Q3
GDP growth (%)	9.1	6.1	7.9	8.9

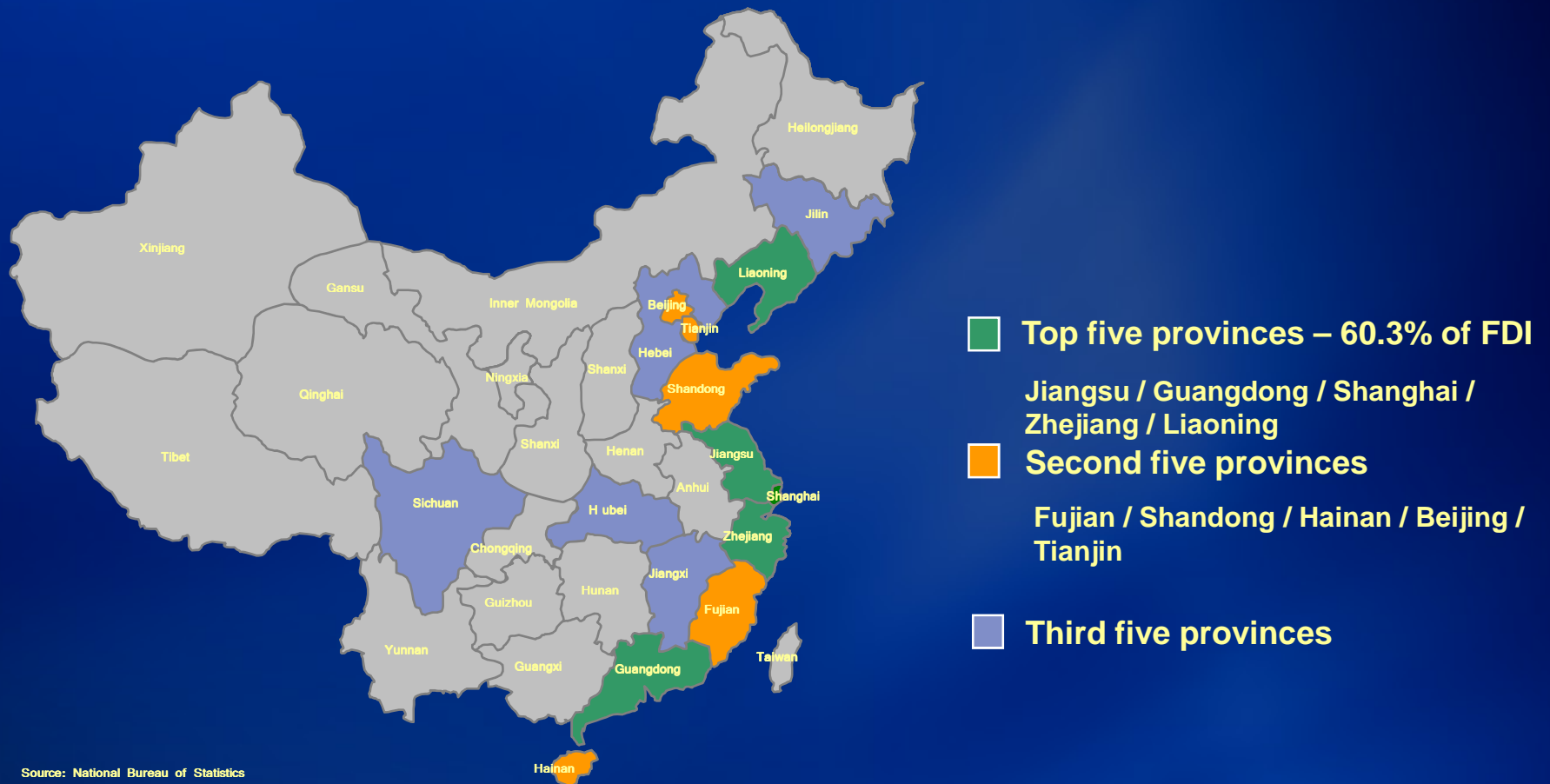
Source: National Bureau of Statistics of China and www.tradingeconomics.com

Overview of Foreign Investment in China - where from



January – September 2009
Source: MOFCOM

Overview of Foreign Investment in China – where to



Common issues for Foreign Investors

- **Due diligence approach**
- **Choice of holding structure and investment vehicle; consider repatriation strategies**
- **Understand diversity among different locations**
- **Establishing relationships in China**
- **Keeping updated with changes in regulations**
- **Employee issues**

Holding and Investment Structures

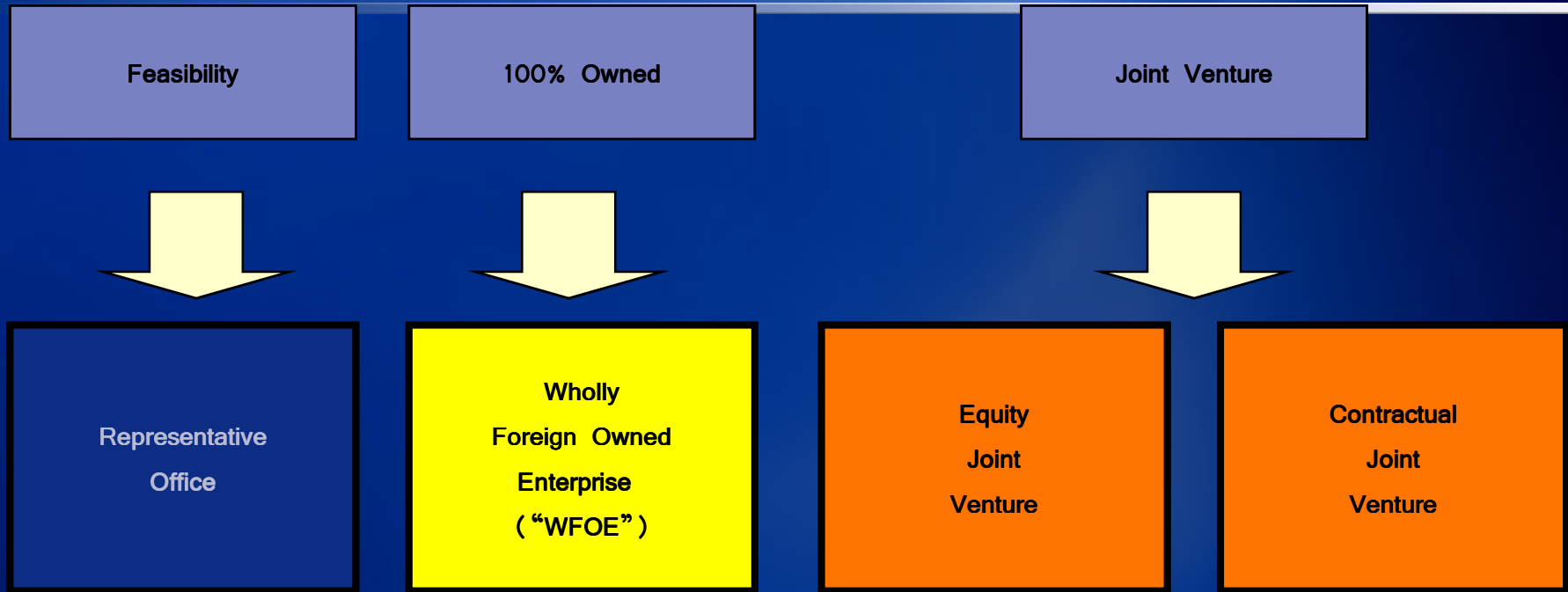
Holding Locations – Withholding tax Comparisons

	India	HK	Singapore	Mauritius	Barbados
Dividend	10%	5%*	5%*	5%	5%
Interest	10%	7%	7%** or 10%	10%	10%
Royalties	10%	7%	6% or 10%	10%	10%
Capital Gains	Taxable	Exempt if non land rich and less than 25%	Exempt if non land rich and less than 25%	Exempt if non land rich and less than 25%	Exempt

*more than 25% shareholding

** only applies to bank or financial institution

Alternative Investment Structures



Others

- Partnership
- Trust

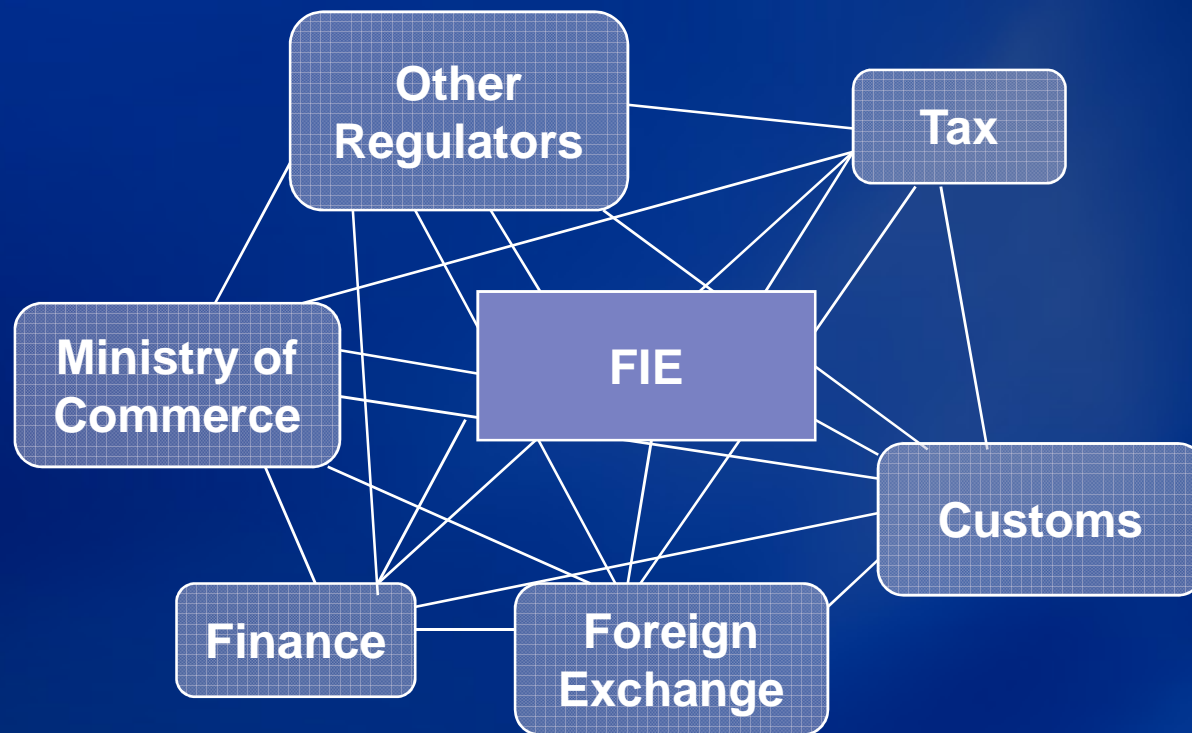
Business Scope

- **Business scope**
 - Investors need to apply for the business scope during business registration with government authorities
- **With respect to the business scope, foreign invested enterprises (both WFOE or JV) can be classified as:**
 - Manufacturing enterprises
 - Trading / Commercial enterprises
 - Investment holding enterprises / Regional Headquarters
 - Consulting / service enterprises
- **Regulated industries**
 - China Banking Regulatory Commission (“CBRC”)
 - China Insurance Regulatory Commission (“CIRC”)
 - China Securities Regulatory Commission (“CSRC”)

Regulatory Control

PRC Key Regulators

- Foreign Investment Enterprises (“FIE”)



Foreign Exchange Control

Foreign Exchange Controls

- Administered by State Administration of Foreign Exchange (“SAFE”)
- Tight foreign exchange controls
 - Capital versus Trade
 - Non-trade items

Debt-Equity Ratio Limitation

- Requirement of minimum registered capital:

Total Investment (US\$ million)	Minimum Registered Capital (US\$ million)
No more than 3	70% of the total investment
Between 3 and 10	50% of the total investment and no less than 2.1
Between 10 and 30	40% of the total investment and no less than 5
More than 30	1/3 of the total investment and no less than 12

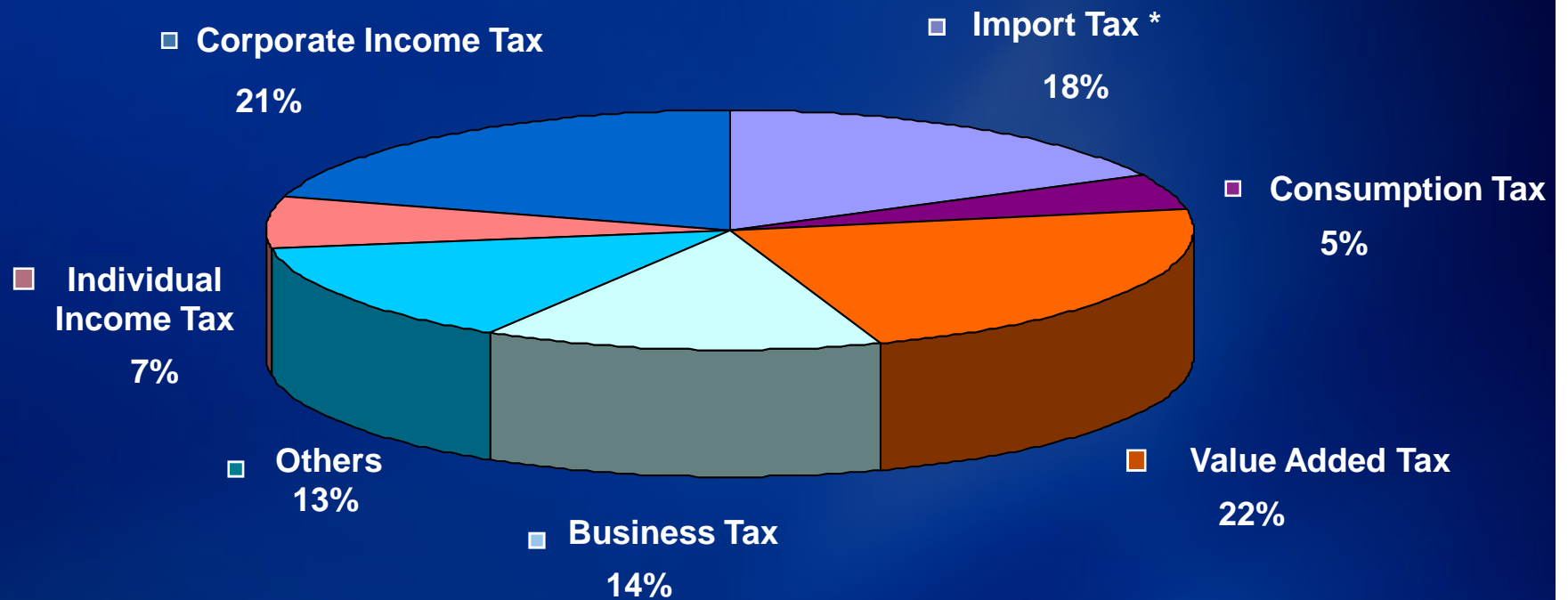
- Recently introduced thin-capitalization rules for tax

Foreign Debt

- **Foreign debt quota (Total investment less registered capital)**
- **Registration with SAFE**
- **No registration – offshore remittance implications (principal and interest)**
- **Foreign debt includes foreign exchange loans obtained from overseas shareholders as well as RMB loan guaranteed by overseas entity (only when guarantee is utilised)**

Overview of China Tax

2008 Tax Revenue

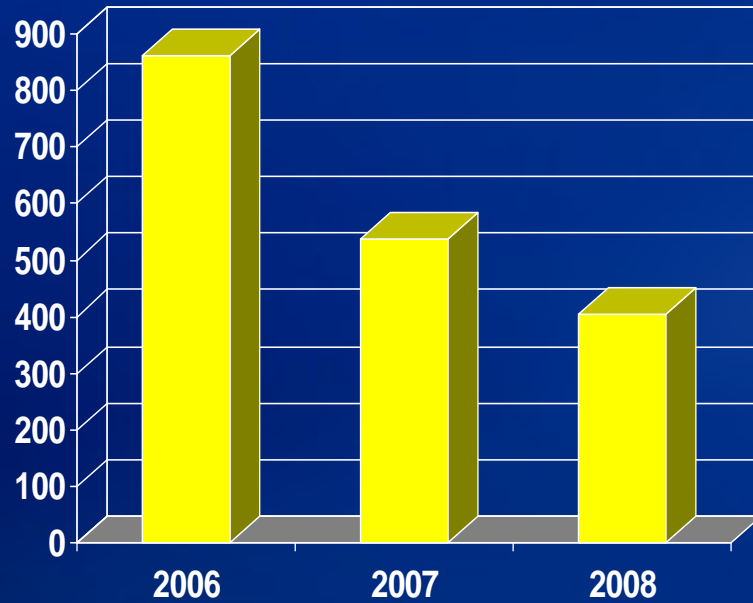


* including Customs Duty, import VAT and Consumption Tax

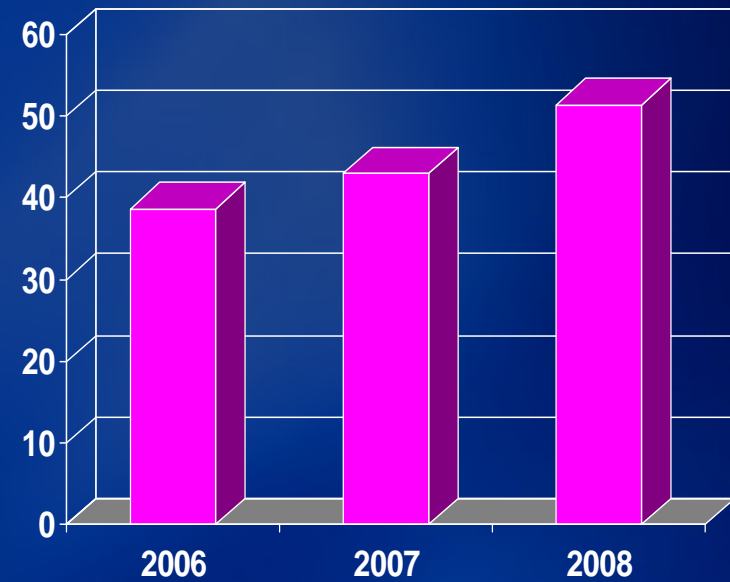
Source: MOF and SAT

Tax Audit

The quantity of entities audited (in thousands)



The tax collected based on tax audit (CNY, in billions)



Source: SAT

Corporate Income Tax (“CIT”)

- **Residency Status**

- Resident enterprises - worldwide income
- Non resident enterprise - income derived by or effectively connected with their establishment or places of business in the PRC, or derived from sources in the PRC

- **CIT rate**

- Generally 25%
- Small-scale entities 20%
- Withholding tax 10%

Individual Income Tax (“IIT”)

- **PRC resident**
 - Worldwide income
- **Expatriates**
 - Reside in the PRC solely to carry out tasks - subject to IIT on PRC-sourced income
 - Reside in the PRC for a continuous period of five years or more - subject to IIT on worldwide income
- **IIT rate**
 - 5%~45% depending on the nature of income

Indirect taxes

- **Value Added Tax (“VAT”)**

- **Sell goods, provide processing and repair services, import goods**
- **VAT rate**
 - **Generally 17% (reduced rate for specified goods 13%)**
 - **Small-scale taxpayer 3% (Levying rate)**

- **Business Tax (“BT”)**

- **Provide services (except for processing or repair services)**
 - **Offshore services**
- **Transfer of intangible assets**
- **Transfer of immovable property**

 – **BT rate 3% - 20%**

Other PRC Taxes

- **Consumption Tax (“CT”)**

- Production, processing and importation of taxable items
- Ranging from 3% - 45% for products subject to CT on an ad valorem basis

- **Stamp Duty**

- Levied on contractual documents that are enforceable under, or protected by, PRC laws
- Ranging from 0.005% - 0.1%

Other PRC Taxes (cont'd)

- **Customs Duty**
 - Charged on the importation of goods into the PRC
 - Duty rate determined according to a tariff schedule
- **Real estate taxes**
 - Land Appreciation tax 30% - 60% on appreciation
 - Deed Tax 2% - 5% determined by local authorities
 - Land Use tax
 - Real Estate Tax (based on cost or rent)

Presenter's contact details



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