

## Appendix A: Taxes to be Paid by Foreign Firms in China (Beijing Area)

Source: Beijing Government Web Site

<http://www.chinavista.com/beijing/invest/tax.html>

### Taxes Required to be Paid by Foreign-funded Enterprises

[Value Added Tax \(VAT\)](#) [Consumption Tax](#) [Business Tax](#) [Income Tax](#) [Land Appreciation Tax](#) [Tax on Building Property](#) [Stamp Tax](#) [License Fare for Vehicles and Vessels](#) [Individual Income Tax](#) [Customs Duty](#)

#### Value Added Tax (VAT)

There are 3 tiers of rates for VAT: For sales or import of goods and providing service of processing and repair, the tax rate is 17%.

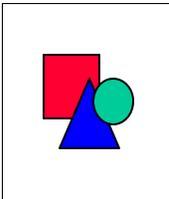
For sales or import of grain, edible oil, coal gas, natural gas, coal products for civil use, books, newspapers, magazines, etc., the tax rate is 13%.

For export goods, except for those that the State Council has special provisions, the tax rate is 0.

For enterprises and individuals engaged in production or providing taxable labor service with an annual sales volume under RMB 1 million, those engaged in wholesale and retailing with an annual sales volume under RMB 1.8 million, and those designated by the tax authority as small VAT payers, the tax rate is 6%.

#### Consumption Tax

Consumption tax has in all 11 tax items and 25 tax rates (tax volumes), from the lowest 3% to the highest 5%. The tax rate should be decided by prices in the production process while for yellow rice wine, beer, petrol and diesel oil, the tax volume is decided by its quantity. The taxable export consumer goods, except those subject to special State provisions, should be exempt from consumption tax.



#### Business Tax

There are 9 tax business rates, ranging from 3% (communications and transportation industry) to 20% (recreation industry). The temporary tax rate for recreation industry in Beijing is 10%.

#### Income Tax

In the administrative area of Beijing, the tax rate of foreign-funded enterprises of a production nature with an operation term over 10 years is reduced to 24%. They shall be exempt from this tax in the first two profitable years and allowed a 50% reduction in the following three years. Foreign-funded enterprises engaged in farming, forestry and husbandry may apply to the State Tax Bureau for a 15% to 30% reduction in income tax for 10 years after the expiration of the two-year income tax exemption and the three-year reduction period.

Foreign-funded production enterprises located in Beijing Economic and Technological Development Zone shall be levied at a reduced rate of 15%, and shall be exempt from this tax for two years starting from its first profitable year and allowed a reduction of 50% of this tax (7.5%) in the next three years.

Hi-tech enterprises set up in Beijing Hi-tech Industry Experimental Zone shall be exempt from this tax for three years from the date it gets the business license and

allowed a reduction of 50% of this tax (7.5%) in the next three years.

After application off the enterprise and approval from the tax authority, the elected technologically advanced enterprises may enjoy extension for another three years of 50% income tax reduction after the expiration of its exemption and reduction period of income tax. But if the reduced rate is lower than 10%, the income tax should be levied at the rate of 10%. After the expiration of the exemption and reduction period of income tax, export-oriented enterprises whose annual export volume amounts to 70% or higher of the annual output value, may enjoy 50% income tax reduction for that year.

Foreign-funded production enterprise which operate technology intensive projects, with a foreign investment over US\$30 million which need a long period to retrieve, and which are engaged in projects of energy, communications and construction of harbor, may enjoy a reduced income tax rate of 15%, with the approval of the State Tax Bureau.

Foreign investors in a foreign- funded enterprise, who reinvest the net profits directly in other enterprises in China for an operation term of no less than five years, shall obtain a refund of 40% of the income tax paid on the amount of reinvestment. Foreign investors who reinvest their directly owned net profits in the technologically advanced enterprises or export-oriented enterprises for an operation term no less than five years, may obtain a refund of all the income tax paid on the amount of reinvestment.

New technology enterprises, technologically advanced enterprises and export-oriented enterprises are exempt from local income tax. Foreign-funded production enterprises with an operation term over 10 years shall enjoy exemption from local income tax in the first five profitable years and a 50% reduction in the following five years.

### Land Appreciation Tax

Land Appreciation Tax has four levels of progressive tax rate.

1. For the part of increased value that does not surpass 50% of the deduction of fixed items, the tax rate is 30%.
2. For the part of increased value that surpasses 50% but no more than 100% of the deduction of fixed items, the tax rate is 40%
3. For the part of increased value that surpasses 100% but no more than 200% of the deduction of fixed items, the tax rate is 50%.
4. For the part of increased value that surpasses 200% of the deduction of fixed items, the tax rate is 60%.

The surplus amount of the Land Appreciation Tax payer's income from real estate transfer subtracting the fixed amount of deduction is the volume of increased value.

Fixed items for deduction:

\* The amount of money paid for the right to use the land; the development cost of the land; the cost and fees for new house building and the accessory equipment, or the assessed value for the old houses and buildings; the relevant taxes on real estate transfer as required by the Ministry of Finance.

In the calculation of Land Appreciation Tax, for expenses related to real estate development, such as sales expenses, financial expenses, management expense

situations, the deduction of real estate development expenses should be 10% of the total real estate cost.

### **Tax on Building Property**

The owner or renter (agent and user in case it is unidentifiable) is the tax payer. The building property of foreign-funded enterprises and of foreign personnel should be levied quarterly at an annual tax rate of 1.2%. And they may enjoy a 30% reduction of assessed tax.

### **Stamp Tax**

The taxable instruments:

Contracts or agreements on buying and selling, processing, building projects, leasing, goods transport, storage, loans, property insurance and technology contracts and vouchers of contract .

Instruments of property transfer, business account books, rights, certificates and licenses; other instruments that the Ministry of Finance deems necessary to be taxed.

### **License Fare of Vehicles and Vessel**

Users of automobiles and vessels as tax payers. Tax rate: the rate for trucks and ships is decided by their tonnage while that for passenger buses and cars by their types and number of seats.

- Trucks RMB 48 yuan per ton per year
- Buses and cars RMB 120-163 yuan per year (according to the number of seats)
- Motor bicycles RMB 20-48 yuan per year
- None-motor vehicles RMB 4-30 yuan per year

### **Individual Income Tax**

For individuals residing in China for less than one year, individual income tax shall be levied only on the income gained within China.

For individuals residing in China over one year but less than five years, individual income tax shall be levied on the income gained within or outside China.

For individuals residing in China over five years, individual total income from outside China from the sixth year.

Individual income tax shall be levied on the following categories of income:

Wages and salaries; compensation of personal services, royalties; interest, dividends and bonus; income from property leasing; income from property transfer; other kinds of income specified as taxable by the Ministry of Finance.

Foreign personnel working and performing personal services within China, whose continuous or accumulated residence in China does not exceed 90 days in one Gregorian calendar year (183 days for those from countries with which China has taxation agreement), shall be exempt from individual income tax, for income from salaries and wages obtained from employers outside China.

Income from wages and salaries is taxed at 8 progressive rates, ranging from 5% to 45%. One's monthly income minus RMB 4,000 yuan is his taxable amount of income.

Income from compensation for personal services, royalties, interest, dividends, bonus, lease of property, transfer of property, and other kinds of income shall be taxed at a proportional rate of 20%.

## Customs Duty

**Import:** Starting from April 1, 1996, the import of equipment and raw materials purchased by newly established foreign-funded enterprises within the stipulated total investment is subject to import tariff and import link tax. For foreign-funded enterprises founded before March 31, 1996, import of goods within the stipulated total investment and approved additional investment is exempt from import duty during the grace period (before Dec. 31, 1997, for projects with total investment above US\$30 million; before Dec. 31, 1996, for projects with total investment less than US\$30 million). Tax should be levied accordingly for their import beyond total investment. If the import can not be finished within the grace period, the State Council may extend the grace period upon the request of Moftec.

**Export:** Export products produced by the foreign-funded enterprise itself, except those prohibited from exportation by the State and those subject to other State regulations, shall be exempt from export tariff.

**Bonded commodities:** The necessary imports for foreign-funded firms to produce exports, such as raw materials, fuel, parts and components, accessories or packaging materials are regarded by the custom house as bonded commodities.

## Appendix B: Policies and Regulations on Foreign Firms in China (Beijing Area)

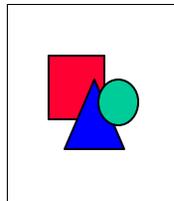
Source: Beijing government's web site  
<http://www.chinavista.com/beijing/invest/policy.html>



# Policy and Regulations on Foreign-funded Enterprises

- [Policy and Regulations of Administration for Industry and Commerce](#)
- [Policy and Regulations on Labor Management](#)
- [Policy and Regulations of Foreign Exchange Control on Foreign-funded Enterprises](#)
- [Policy and Regulations on Real Estate Investment](#)
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## Policy and Regulations of Administration for Industry and Commerce



### Registration

Within 30 days after the examination and approval organs issue approval document and certificate, investors should register at administrative offices for industry and commerce, which will issue business license after examination and ratification.

### Regulations on investment input

According to the Regulations on Investment Input of Different Parties of Joint Ventures, all parties should turn in the stipulated capital within six months from the issuance of business license, if the contract provides that investment be turned in one move; if the contract allows installments, the first installment should not be lower than 15% of the agreed amount of investment of each party and must be turned in within three months from the issuance of business license. If any party does not observe the regulations, the joint venture will be regarded as automatically dispersed and the approval certificate will expire automatically. The joint venture should cancel the registration at the administrative office for industry and commerce and return the business license. The Administration for Industry and Commerce will make the announcement of revoking business licenses of those who do not cancel registration or return the business license. The parties who do not make investment within the contracted period of time will be punished by the registration administrative offices.

### Annual inspection:

The registration administrative offices conduct an annual inspection on foreign-funded enterprises. The inspection examines the investment paid by different parties, whether the joint venture is doing normal business within the registered

scope of business, whether there is any investment withdrawal, transfer of property, or evasion of debts, whether it has opened business, change or cancel registration as stipulated by regulations. Foreign-funded enterprises should submit annual inspection reports and statements of assets and liabilities in time.

#### Supervision and administration:

The registration administrative offices take the responsibilities of supervising and administering the implementation of the contract and articles of foreign-funded enterprises. To those who do not or refuse to set up account books inside China, the registration administrative offices have the right to suspend their business or revoke their business licenses. The offices also make sure that foreign-funded enterprises open business, change or cancel registration as stipulated by regulations, do business within the registered scope of business and in accordance with the contracts and articles, go through annual inspection, and observe relevant laws and policies of the State.

All parties in a foreign-funded enterprise should state clearly in the contract and articles of association the time limit of the investment and turn in the registered capital before that time limit. Unless otherwise specified by the State, the following regulations on the time requirement of investment are applied to the investors of a foreign-funded enterprise. (Please refer to the table in page 68.)

## Policy and Regulations on Labor Management

### Contract of labor

Foreign-funded enterprises must comply with the Labor Law of the People's Republic of China and Regulations on the Implementation of Labor Contract System of Beijing. The legal representative must sign labor contracts with employees for a certain period of time on the day of the employment.

### The hiring, firing and resigning of employees

**Employing:** Foreign-funded enterprises can determine their institutional and personnel systems on their own and are free to decide the time, scale, conditions, and patterns of their employing activity. But child labor is prohibited. Women workers should not be assigned to do work specified by the State as unsuitable for women. If foreign-funded enterprises want to employ people from outside Beijing, they must individually make application on the employment relationship to local governments, or the administrative department of the municipality will collect the cases and apply to Beijing Municipal Bureau of Labor. People from Taiwan, Hong Kong and Macao, who want to work in Beijing must apply for the Employment License of People from Taiwan, Hong Kong and Macao. The Municipal Bureau of Labor is the administrative department of the employment of people from Taiwan, Hong Kong and Macao.

**Dismissing:** Foreign-funded enterprises are can dismiss those who remain unqualified after trial employment and professional training, who have broken the regulations of the enterprises } and those who are convicted.

**Resigning:** Employees can resign during the trial employment period, or at any time when the enterprise has violated the labor contract and encroached the lawful rights of the employees.

### Labor protection

Work time, holidays, and leave: The work time should not exceed eight hours per day. The average work time per week should not exceed 40 hours. Foreign-funded enterprises are required to arrange holiday leaves for employees in legal holidays such as the New Year, Spring Festival, the International Labor Day, and the National Day.

Labor safety and hygiene: Foreign-funded enterprises must strictly observe the regulations and standards of labor safety and hygiene in China. The production equipment and installations must be supplemented with safety and hygiene facilities. For new projects, expansion projects and renovation projects, the safety and hygiene facilities must be designed, constructed, and put into use simultaneously with the principal parts of the projects.

**Employment of foreigners in China** refers to the behavior of those who have not obtained residence but are engaged in social labor activities in China and get payment for their services. According to the Regulations on Employment of Foreigners in China, a license system is used to administer the employment of foreigners who come to work in China.

The employers are required to apply for Employment Licenses for the foreigners they want to employ and are not allowed to employ foreigners without the Employment License of Foreigners in People's Republic of China. The labor executive department of the municipal government is responsible for the administration of foreigners' employment in China. Foreign employees who work in foreign-funded enterprises should pay tax in accordance with relevant laws. If the salary, wage, and other legal income of the foreign employees are in foreign currencies, the employee, after paying the tax, can either remit the money or take it out of China; if the income is in RMB, the employee, after paying the tax, can purchase foreign currencies at designated banks with the effective certificate issued by foreign exchange control department, and then remit the money or take it out of China.

The employment of residents of Taiwan, Hong Kong and Macao should comply with the Regulations on Employment of Residents of Taiwan, Hong Kong and Macao.

### **Labor Insurance, Welfare, and Salary System**

Salary standard for foreign employees: Salaries for foreign employees shall be settled and paid according to the labor contract signed by both the enterprises and the employees. Salaries for the employees from Hong Kong, Macao and Taiwan shall be settled in light of the regulations for foreign employees.

The salary standard for Chinese employees is decided by the enterprise itself, but should not be lower than RMB 1.4 yuan per hour and RMB 240 yuan per month.

Standards for extraction of medical expenses, various welfare and pensions for Chinese employees: The foreign-funded enterprises should extract the total salaries and wages of Chinese employees from its cost and take the extraction as the base.

(see the table below)

Price subsidiaries standards: According to the rules of the Ministry of Finance, foreign-funded enterprises should hand in the various price allowances (RMB 30 yuan per month for each Chinese employee in the enterprise) to the local financial authorities that the State pays to the employees, in accordance with the standards

verified by local financial and labor departments of the provinces, autonomous regions and municipalities directly under the central government.

Exemption policies: Starting from the month of their establishment, the State-approved export-oriented and technologically advanced foreign funded enterprises are exempt from this 30-yuan price allowances. Cost and expenses of the enterprises shall be correspondingly reduced. The enterprises are exempt from all the price allowances for Chinese employees who hold rural residence cards.

## Policy and Regulations of Foreign Exchange Control on Foreign-funded Enterprises

### Issuance of Foreign Exchange Control Certificate of Foreign-funded Enterprises

Within 30 days from the issuance of business license, the foreign-funded enterprise should apply for the Foreign Exchange Control Certificate from the local administration on foreign exchange control and meanwhile submit the documents issued by the administration of industry and commerce. The enterprise can hold the certificate to open its foreign currency account in the designated banks. With the approval of administration of foreign exchange control, the foreign-funded enterprises can also open foreign currency accounts at financial organs within or out of the Chinese territory.

### Opening account in China

Opening a foreign currency account: Foreign-funded enterprises may choose any bank that has the right to do foreign currency operations to open a foreign currency account. In applying for the opening of account, the following documents are to be delivered:

5. Business license ratified and issued by the administration of industry and commerce
6. Approval certificate for establishment of the enterprise
7. Foreign Exchange Control Certificate of Foreign-funded Enterprises issued by the Administration of Foreign Exchange Control.

Opening a RMB account: Foreign-funded enterprises may choose any bank that has the right to do RMB operations to open a RMB account. For the application, the following documents are to be delivered:

1. Business license ratified and issued by the administration of industry and commerce
2. Approval certificate for establishment of the enterprise

### Payment and remittance of foreign exchange

With relevant certificates and documents, current payment of foreign exchange within the business scope of the foreign-funded enterprise can be directly remitted through the bank of deposit.

Foreign-funded enterprises can go through the repayment of foreign capital and interest with the bank of deposit by the Examined Paper of Foreign Loan issued by the Administration of Foreign Exchange Control. Profits that foreign investors obtained, and salary income of foreign employees and employees from Hong Kong, Macao and Taiwan can be remitted through the bank of deposit.

The remittance of foreign exchange under the items of the enterprise's capital, such

as the capital transfer of foreign-funded enterprises, recovery of investment, and the remittance of outlay of the enterprise's branches outside China, must be approved by the Administration of Foreign Exchange Control.

#### **Profits in RMB obtained by foreign investors**

Approved by the Administration of Foreign Exchange Control, the foreign investor of the foreign-funded enterprise can invest its profits in RMB in Chinese enterprises that can create foreign exchange or increase foreign exchange income. Besides the preferential treatment of partial refund of the paid income tax, the investor can also get the same treatment as the foreign exchange abroad, foreign-funded enterprises should go through foreign loan registration with the Administration of Foreign Exchange Control. Overseas loans that need the Chinese party's guarantee should be considered in light of the State plan of employing foreign investments and be reported to relevant departments for approval.

**Foreign currency exchange** Examined and approved by the Administration of Foreign Exchange Control, foreign-funded enterprises can sell their revenue in foreign currencies, foreign investment, etc. on the swap market. Also on the swap market, they can also buy foreign currencies needed for activities within their business scope, foreign loan repayment, and for remittance of the foreign investor's profits, etc.

#### **Annual check on foreign currency**

Foreign-funded enterprises should entrust accountant firms appointed by the Administration of Foreign Exchange Control to conduct annual check on their use of foreign exchange and present an annual report on the results of the inspection before April 30 each year. The enterprises should go to the Administration of Foreign Exchange Control with the annual report and their Foreign Exchange Control Certificates of Foreign-funded Enterprises to renew the ratification of the certificates before May 31 each year.

#### **Preferential policies to foreign investment**

Foreign-funded enterprises may open foreign currency account in the local designated banks with the Foreign Exchange Control Certificate of Foreign-funded Enterprises.

Foreign-funded enterprises may adjust their foreign currency surplus or shortage on the swap market.

Authorized by competent departments, foreign-funded enterprises may export products bought with RMB from domestic producers in order to achieve comprehensive compensation of foreign currency. Foreign investors may reinvest their RMB profits in other enterprises within China which can generate new and additional foreign currency earnings, meanwhile they can enjoy the same preferential treatment as that of investment in foreign currencies.

### **Policy and Regulations on Real Estate Investment**

Foreign investors may, in the form of joint venture, obtain the right to the use of state-owned land in Beijing with compensation by means of auction, bid or agreement. The allotted time for land-use right is from a minimum of 40 years to a maximum of 70 years, depending on the purpose of use.

Foreign investors are encouraged to develop and reconstruct the old residential

districts in the city proper of Beijing. They may engage in the development and construction of high-grade residence, industrial buildings, and commercial, tourist and recreational facilities and may also conduct operations and other economic activities with the developed real estate.

Foreign investors can sell or rent the real estate they have developed to enterprises, organizations and individuals both inside and outside China. Foreign investors can sell or rent their buildings and the right to the use of land to banks or other financial institutions in and outside China.

## Policy and Stipulations Regarding the Inspection of Import & Export Goods

**Mandatory inspection:** The scope of mandatory inspection:

inspection of all the goods enlisted to be inspected by the commercial inspection organization for import and export; quarantine tests for export food; quarantine tests for export animal products; appraisal for the function and usage of packages and containers for dangerous goods to be exported; appraisal for the transportation conditions of cargo holds and containers for decompose-prone food to be exported; tests on imports and exports which are regulated by other laws and stipulations.

**Inspection exemption:** Some goods are exempt from inspection providing that they meet the requirement of the State Commodity Inspection Bureau and are so approved of. Inspection exemption can also be granted to samples, presents and gifts, exhibits not for sale, and other goods with non-trade nature.

**Quality licensing:** For those import and export goods involving safety and sanitation, import license for safety and export license for quality are given to their manufacturers. No import or export of such goods is permitted without the verification and license of the commodity inspection organizations. At present, export licenses for quality are issued for nine categories of goods and the import licenses for safety are issued for 47 categories of goods.

**Hygienic enrollment and registration:** All plants and storehouses that produce, process and store export-oriented food in China must pass the verification test of commodity inspection organs and be given hygienic enrollment or registration for their plants and storehouses before they are entitled to produce, process, and store food for export. **Import inspection for foreign-funded enterprises:** Those import goods to be used by foreign-funded enterprises are subject to inspection to be conducted by these enterprises themselves. Except for imports subject to mandatory inspection and imports involving hygienic and safety issues, other imports are subject to inspection to be conducted by these enterprises. The equipment and raw materials, which are paid for by foreign-funded enterprises, who demand appraisal of the value of their imported equipment and raw materials, should be reported and inspected by the commodity inspection organization; the equipment and raw materials, which are purchased from overseas through entrustment by overseas partners, should be reported and inspected by the commodity inspection organization. Verification and appraisal certificates serve as the valid documents in the examination of the capital invested by the joint venture or cooperative enterprises.

**Priority policy:** Foreign-funded enterprises which produce export-oriented

products enjoy priority when applying for such documents as inspection appraisal, quality license, hygiene registration and referential certificate for original place of production.

## Recognition and Definition of Technology Intensive and Knowledge Intensive Foreign-funded Enterprises

To apply for the recognition and definition as technology intensive or knowledge intensive foreign funded enterprises, the enterprises must fill out the application form for recognition and definition of these two kinds enterprises, then submit their application to Beijing State Taxation Bureau, who will examine the application together with Beijing Science and Technology Commission. The latter will issue approval documents and recognition certificates to qualified enterprises.

When the application has been approved by administration of taxation, the recognized technology intensive and knowledge intensive enterprises can begin to enjoy preferential taxation.

Technology and knowledge intensive enterprises must be engaged in research, development, production, or marketing of one or more of the following technologies and products:

1. electronic information technology and its related products (including information processing softwares);
2. laser technology and its related products;
3. the technology of integration of laser, engine and electronics and related products;
4. life sciences, biology engineering technology, and related products;
5. new materials technology and related products;
6. new energy technology, new energy saving technology and related products;
7. environmental science, labor protection technology and related products;
8. (new building materials, parts, construction technology and related equipment;
9. refined chemical technology and related products;
10. new medicine and biological medical engineering;
11. nuclear application technology and related products;
12. geo-science, space technology, marine technology and related technology;
13. (other new technologies and products that can bring high economic profits and are suitable to be developed in Beijing.

## Regulations on Reinvestment of Foreign-funded Enterprises

According to the Corporation Law of People's Republic of China, foreign-funded enterprises can, in their own name, invest in limited liability companies with the capital and assets of the enterprises. To be registered as the stockholders or sponsors, the foreign-funded enterprises must accord with the following requirements:

1. having turned in all the investment promised in the contract;
2. having completed the examined and ratified project;

3. having begun to pay income tax

If the foreign-funded enterprise is the stockholder or sponsor of the limited liability company, its shares in the company must comply with the following requirements:

(1) For industries where the State encourages overseas investment, there is no limit as to the percentage of shares owned by the foreign-funded enterprise (unless specified as otherwise by the State).

(2) For industries where the State limits overseas investment, the shares owned by the foreign-funded enterprise can not exceed 25% of the total registered capital.