

## Foreign Enterprise in Qingdao

Registering a Wholly Owned Foreign Enterprise (WOFE) is clearly spelt out in many of the district brochures and websites. All the zones also support in the registration process. Understand that some zones are much better managed than others but bottom line is it's just a process and will go straight forward. It takes 4-6 weeks when all documents below are completed.

### Company Registration

#### Wholly Foreign Owned Enterprise (WFOE) Procedure:

1. Name inquiries and approval notice.
2. Acquiring approval. The documents needed for the application is as follows:
  - a. Application.
  - b. Feasibility report.
  - c. Constitution.
  - d. Contract of Technology Transfer (import) if have.
  - e. Notice of approving the name of the enterprise.
  - f. The certificate for renting or owning office.
  - g. Good Standing Certificate of the investor.
  - h. Credit certificate of the investor.
  - i. The name list, Letter of Appointment, identification and resumes of the members of the Board of Director or Executive Director.
  - j. Certificate of authority provided if it is involved in being the signature authorized.
3. Approval by Environment Protection Bureau.
4. Applying for the Code Number of the enterprises.
5. Acquiring the letter of certification from MOFTEC.
6. Acquiring the certificate of Code Number and IC card.
7. Chops for business operation: Company chop, financial chop, personal chop and customs chop.
8. Registration of National Tax.
9. Registration of Local Tax.
10. Registration of Foreign Exchange.
11. Bank Accounts.
12. Registration with Customs.
13. Financial registration.

#### Investment Capital & Registration Costs:

Below is the actual costs you will have for company registration.

Total Investment	Registered Capital Required	Dollar Cost
Below 3,000,000 USD	70%	
3-10,000,000 USD	50%	

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10-30,000,000 USD	40%	
Above 30,000,000 USD	33%	
Determining the registered capital investment should be consulted on by experienced law and or accounting firms.		
<b>Actual Cost Example:</b>		
Registration capital converted to RMB for calculation:	<ul style="list-style-type: none"> <li>- Below 10 Mil RMB x .08%</li> <li>- 10 Mil to 100 Mil RMB x .04% after the first 10 Mil</li> <li>- Over 100 Mil RMB x .04% (No charge on first part.)</li> </ul>	
Total Investment 10,000,000 USD	Registered Capital 5,000,000 USD (Based on the above calculations.)	Registration Fee: 20,600 RMB
Name Approval:		No cost
Name Registration:		150 RMB
Application for Business License:		20,600 RMB
Registration and receipt of company codes:		225 RMB
Seal Engraving & Registration: (Chops)	Minimum is 4. 120 RMB per chop.	480 RMB
Registration with Financial Bureau and Foreign Exchange Bureaus:		
Registration with Tax Bureau's: (National & City)	50 RMB for each bureau.	100 RMB
Setting up company bank accounts:	Purchase of company cheques. (Transfer and Cash cheques.)	50 RMB per set of 50.
Registration with Customs.	Standard fee plus you will need a computer equipped with a modem to electronically submit data.	165 RMB
<b>Total</b>		<b>21,820 RMB</b>

### Documents Required by Investor

You will be required to prepare the following documents prior to the registration of a company. The zone administration you register in will support in the registration with all the necessary bureaus and ensure your documents are correct prior to submitting. All documentation must be in Chinese, most is not required to be in English but should be for your own records.

Below are the documents you will be required to bring the rest will be done here. It is suggested to consult with Bili or another Chinese firm to select appropriate translations, etc. Bili has completed the registration of several companies and can provide you templates for most the documents.

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Note: All documents must be original copies.

### Investor Responsibility:

1. Chinese Company Name:  
Company names all have certain components; all company names start with Qingdao (unless you want to go through a lengthy process registering from Beijing.) and end with Co., Ltd.  
Example: Qingdao \_\_\_\_\_ Co., Ltd  
- Your name must be descriptive of the industry or product your involved with.  
Example: Qingdao Plastic Wrap Co., Ltd.
2. Application:  
This is a simple document written by Investor to apply to set up company. Should be in the standard format both in English and Chinese. (Template can be provided.)
3. Feasibility Study:  
This report can be easily converted into a feasibility study. The government does not require a detailed business plan but to see that you have evaluated all costs and can make a profitable business. Feasibility study should include some financial calculations to demonstrate profitability.
4. Constitution:  
A special formatted constitution is required that can be duplicated very easily. In "Appendix B" I provide a sample that can be easily converted.
5. List of the Board of Directors:  
Investor will need to provide copies of resumes in both English and Chinese along with clear copies of their passports.
6. Appointment letter of the General Manager and or Board of Directors / Executive President: This is a simple letter of one paragraph to appoint the leaders.
7. Letter from your bank stating your accounts are in good standing.
8. Environmental Information:  
See below for environmental information required for approval.

### Environmental Certificate

Approval must be obtained by the Environment Bureau of Qingdao:

Director: Mr. Ma Tel: 86887146 Fax: 86887146	Project Manager: Mr. Zhang Wei Office phone: 82877044 Fax: 82879784
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### Required Documents:

1. Need to go to Qingdao Environmental Protection Bureau, and get the application form.
2. Depend on the answers in the form (mainly about the investment amount and a production process flowchart), they will tell which kind of reports have to be produced.
3. There are three kinds of documents. Investor will only require one. Depending on the application it can take from 7 to 60 days to finish the report. Then the Environmental Bureau will give its evaluation. It will take 15 to 60 days.
4. Charges: The Environmental Bureau will not charge any money for the evaluation, but the report organization will charge, depending on the complexity of the report the fees range from thousands to tens of thousands RMB.

## Registering a WOFE

### **Taxation:**

National Income tax in China is regulated by Beijing. (China Foreign Tax Guide by Law Press ISBN#7-5036-3190-2) The traditional tax incentives no longer apply to foreign corporations. National taxation is equal to all companies whether foreign invested or Chinese at 25% flat tax.

### **VAT**

For the product Investor will produce, the rate is 17%. A manufacturing WOFE can apply for the VAT refund after it has qualified as a "General VAT Tax Payer" and begin to collect VAT return from the second year. The refund amount can be transferred to next year for crediting the input taxes if any. (The latest word from the officials is you will not have to wait but be able to apply and acquire the certificate in the same process of company registration therefore applying for VAT tax return right away.)

Qualification as a "General Tax Payer":

Must show sales in excess of 5 million RMB with more than 50% export in the first year. Then the WFOE can apply for VAT back the next month after qualifying. Ordinarily the rate of the refund is 13% for plastic production.

### **Source:**

- 1、《中华人民共和国增值税暂行条例》enforced on 01/01/1994
- 2、《中华人民共和国增值税暂行条例实施细则》enforced on 01/01/1994
- 3、《国家税务总局关于出口货物退（免）税若干问题的通知》enforced on 01/01/2003

### **WOFE Income Tax:**

National Income tax in China is regulated by Beijing. (China Foreign Tax Guide by Law Press ISBN#7-5036-3190-2) In 2007 Beijing implemented national taxation equal for all companies whether foreign invested or Chinese to pay a flat tax of 25%.

VAT: For most products the rate is 17%. A manufacturing WOFE or trading company can apply for the VAT refund after it has qualified as a "General VAT Tax Payer" and begin to collect VAT return from the second year. The refund amount can be transferred to next year for crediting the input taxes if any. (The latest word from the officials is you will not have to wait and may be able to apply and acquire the certificate in the same process of company registration therefore being able to apply for VAT tax return right away.)

Qualification as a "General Tax Payer": Must show sales in excess of \$500,000 USD with more than 50% export in the first year. Then the WFOE can apply for VAT back the next month after qualifying. The rate of the refund varies from product to product.

### **Source:**

- 1、《中华人民共和国外商投资企业和外国企业所得税法》enforced on 07/01/1991
- 2、《中华人民共和国外商投资企业和外国企业所得税法实施细则》enforced on 07/01/1991

## Registering a WOFE

### Local Tax:

Below is a list of city or local taxes that is paid by an income producing company.

#### 1. Stamp tax

Different contract will be charged a different rate. As for InterWrap's project, the sale contract will be used mostly and will form the main cost of this tax. The rate for this kind of contract is 0.03% of the total sale amount.

#### 2. Urban real estate tax

The tax for the land is free, only the tax for the building will be charged.

The tax is free for the first three years after the building is build up. After it will be charged 12% of the lease amount or 1.2% of the value of the building.

#### 3. The tax for the maintenance of the river

0.1% of the total sale amount

#### 4. Individual income tax

The total amount of the salary, bonus and etc. will be charged as follows after deduct 1100RMB for Chinese or 4000RMB for foreign employees and the deductions. (No tax for Chinese below 1100 and Foreigners below 4000)

##### Deductions

500RMB or less	5%	0
500-2,000RMB	10%	25
2,000-5,000RMB	15%	125
5,000-20,000RMB	20%	375
20,000-40,000RMB	25%	1375
40,000-60,000RMB	30%	3375
60,000-80,000RMB	35%	6375
80,000-100,000RMB	40%	10375
over 100,000RMB	45%	

#### 5. Local income tax

The rate is 3%. Most districts will not charge this tax for the purpose of inviting investment.

#### 6. Vehicle and vessel usage license plate tax

Passenger vehicles, 15 to 80 RMB per vehicle per quarter;

Cargo vehicles, 4 to 15 RMB per ton-net per quarter;

### Labour:

According to Chinese labour law, all companies in China must pay insurance and housing fund for Chinese employees. Foreign employees do not have to have any of the below deductions, only individual income tax. A company must set up a salary base for every employee in order to pay those expenses. (The base can be different than the employee's salary reducing the amount of benefits paid.)

Typically a company pays a salary, then pays its portion of the benefits and the individual pays their portion reducing the net pay.

Basic deductions are as the following:

	Company paid	Individual
Social insurance:	20%	8%
Medical insurance:	8%	2%
Unemployment insurance:	2%	1%

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Injuring insurance:	1%	(This rate is flexible.)
Bearing insurance:	0.9%	
Housing fund:	10%	10%

### Source:

《关于部分机关事业单位编制外人员等参加城镇企业职工社会保险有关问题的通知》 enforced on 04/22/2003

### Employee Deductions

Chinese corporations are responsible for the deductions of employees. There are no personal income tax forms for Chinese people. Some companies choose to base the deductions on a lower amount than the actual paid salary but it is not legal and can lead to labor problems.

To see details of how deductions work I have prepared a simple spreadsheet that shows the deductions required and the portions paid by company and the portions paid by employees. [“Click here to see Salary-Deductions-2014.xls”](#)

For my employees I choose to pay all the deductions instead of deducting the “employee portion” from the salary but that will be up to you.

For a quick calculation times the net salary your considering by 1.57.

Example: If paying 4000 RMB net x 1.57 = 6280 RMB