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AN INTRODUCTION TO Doing Business in China 2026

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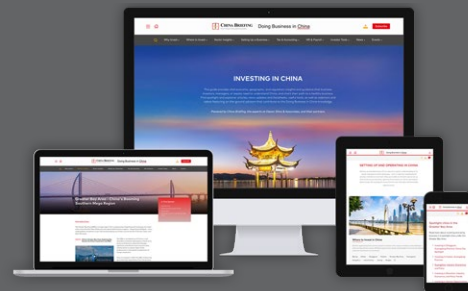
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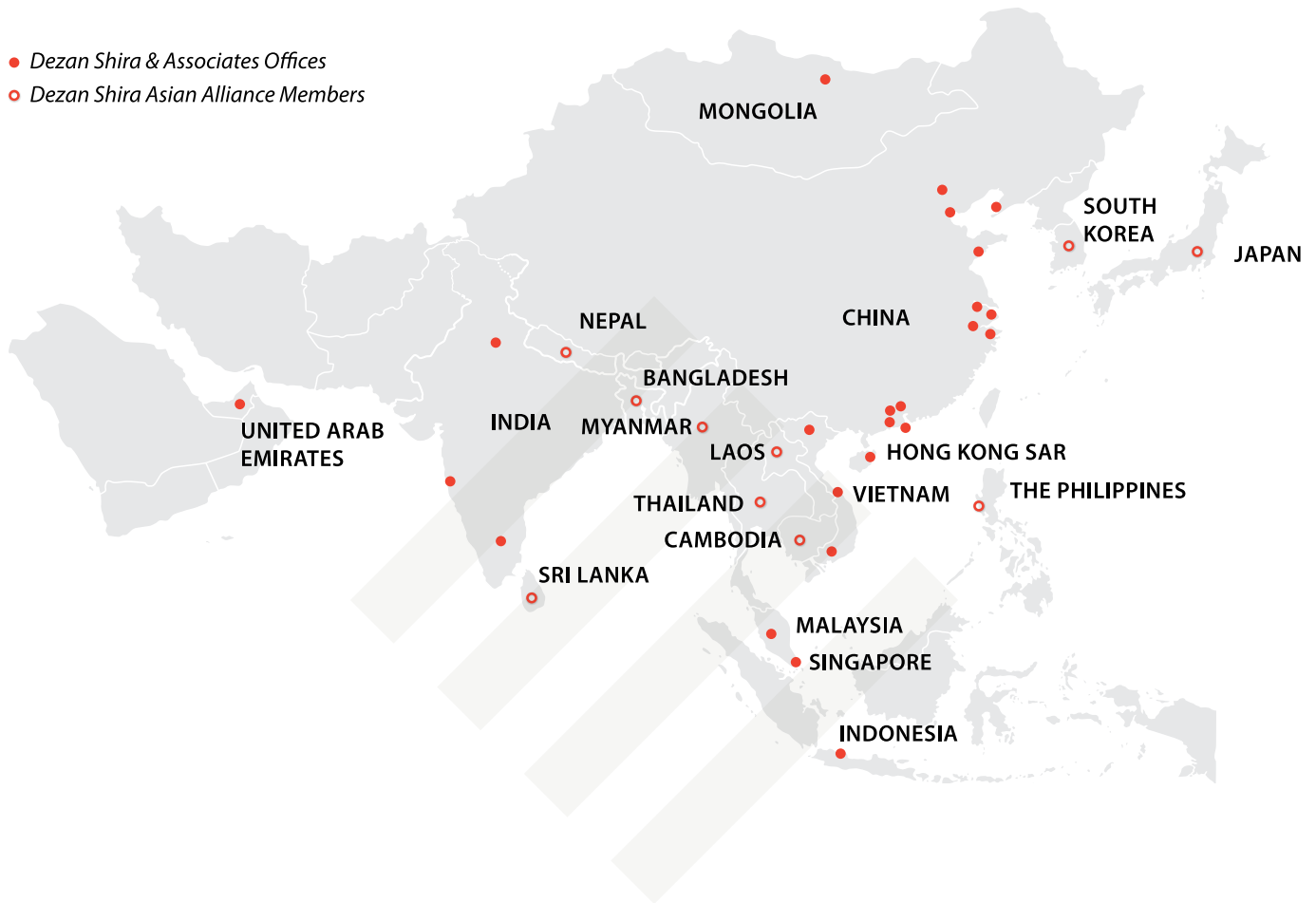
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Dezan Shira & Associates is a pan-Asia, multi-disciplinary professional services firm, providing legal, tax and operational advisory to international corporate investors. Operational throughout China, India and ASEAN, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining and growing their business operations in the region. With over 30 years of on-the-ground experience and a large team of lawyers, tax experts and auditors, in addition to researchers and business analysts, we are your partner for growth in Asia.

Introduction

China enters 2026 amid a complex global environment. Geopolitical tensions, particularly in China-US relations, continue to shape trade and investment flows, while local competitors intensify pressure on foreign firms. Yet, despite these challenges, China remains indispensable for global investors.

With a population of over 14 billion and a rising middle class, China offers consumption potential unmatched by most emerging markets. Retail sales reached RMB 41.2 trillion in the first 10 months of 2025. Meanwhile, China's integrated manufacturing ecosystem and logistics infrastructure provide efficiency and resilience that few markets can replicate. China offers unmatched speed in product development, new technology adoption, and supply chain efficiency – capabilities that often set global standards. For many firms, being in China is not just about serving local customers; it's about staying competitive worldwide and anticipating future rivals.

This explains why 53,782 new foreign-invested enterprises (FIEs) were registered in the country in the first 10 months of 2025, up 14.7 percent year-on-year, despite total foreign investment dipping during the same period. Foreign investors are still entering China, though they are doing so more cautiously.

In terms of noticeable regulatory changes for doing business in the country, 2025 saw the release of new government procurement rules favoring domestic products (effective January 1, 2026); tax supervision tightened and compliance became critical; data governance advanced with the Cybersecurity Law amendments and personal information protection audit rollout. Moreover, key actions indicated that China increasingly emphasizes the importance of using compliant service providers – whether legal, tax, or bookkeeping.

An Introduction to Doing Business in China 2026 equips investors with up-to-date and practical insights into market entry, regulatory compliance, and operational strategies under evolving conditions. Whether you are planning expansion or optimizing existing operations, this guide helps you navigate China's opportunities and challenges with clarity and confidence.



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Why China in 2026

China remains a vital and irreplaceable market for global companies, even as the business landscape evolves and operational challenges increase. The country's unparalleled scale, speed, and innovation capacity – anchored by a vast consumer market, highly efficient supply chains, world-class infrastructure, and a skilled workforce – continue to offer competitive advantages that are difficult to replicate elsewhere. Emerging policies such as strengthened “Made-in-China” procurement requirements further reinforce the strategic importance of maintaining a strong local manufacturing footprint. For forward-looking executives, the priority is not withdrawal but smart adaptation: optimizing operations on the ground, aligning with local policy direction, and leveraging China's unique strengths to maintain global competitiveness.

Vast and dynamic domestic market

China remains one of the most compelling consumer markets globally, driven by its vast population, rising incomes, and structural shifts toward urbanization and consumption. With GDP reaching US\$18.8 trillion in 2024, China is the world's second-largest economy and a critical engine of global growth. More importantly, consumption is increasingly central to this story: retail sales ranked second globally, and household spending now accounts for over 60 percent of GDP growth, signaling a transition toward a consumption-led economy.

The country's middle-income population exceeds 400 million, creating a demand base larger than the entire population of the United States. Rising purchasing power reinforces this trend, with per capita disposable income climbing to US\$5,740 in 2024, up 5.3 percent year-on-year. Urbanization adds another layer of opportunity: 67 percent of China's population lived in cities in 2024, and this figure is projected to reach 70 percent by 2030, concentrating consumers in high-density hubs that favor modern retail, services, and digital ecosystems.

Beyond scale, China's market is dynamic. E-commerce penetration continues to lead globally, and digital payment adoption exceeds 90 percent, enabling rapid shifts in consumer behavior. Premiumization, health and wellness, and sustainability are emerging as dominant themes, particularly among younger demographics such as Gen Z, who prioritize quality, authenticity, and eco-friendly products. These trends, combined with government policies aimed at boosting consumption, position China as not just a large market but a strategic arena for innovation and competitive advantage.

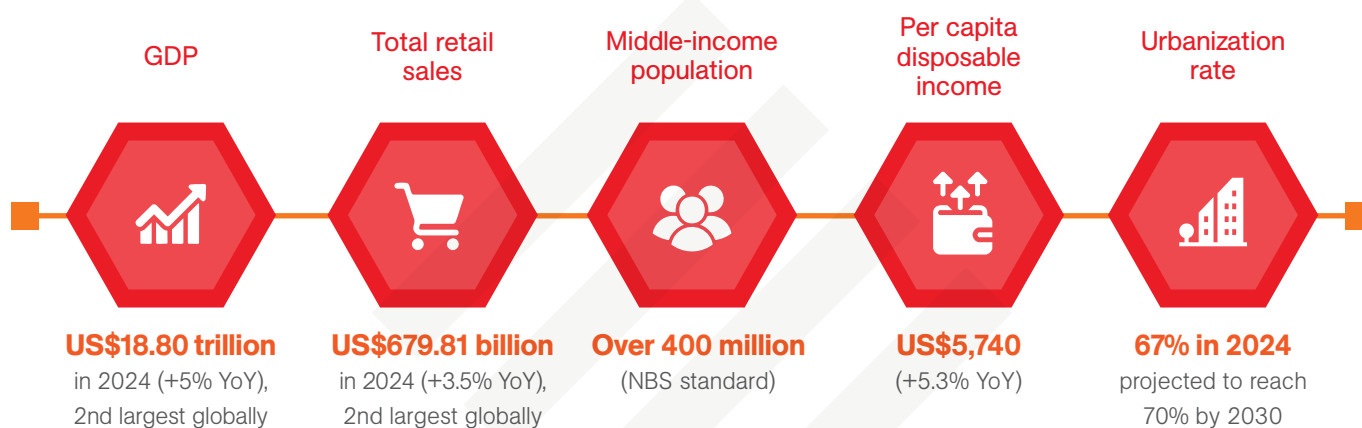
Global manufacturing capacity

China's manufacturing dominance remains formidable, accounting for around 30 percent of global production output. This strength is anchored in the world's most comprehensive and integrated industrial ecosystem, covering all categories in the UN system. From raw material sourcing to component manufacturing and final assembly, this interconnected structure delivers unmatched efficiency, scalability, and cost advantages on a global scale.

Why China Remains a Globally Competitive Investment Destination

China's unmatched market potential

China's expanding middle class, rising purchasing power, and population of more than one billion continue to drive one of the world's largest and fastest-growing consumer markets.



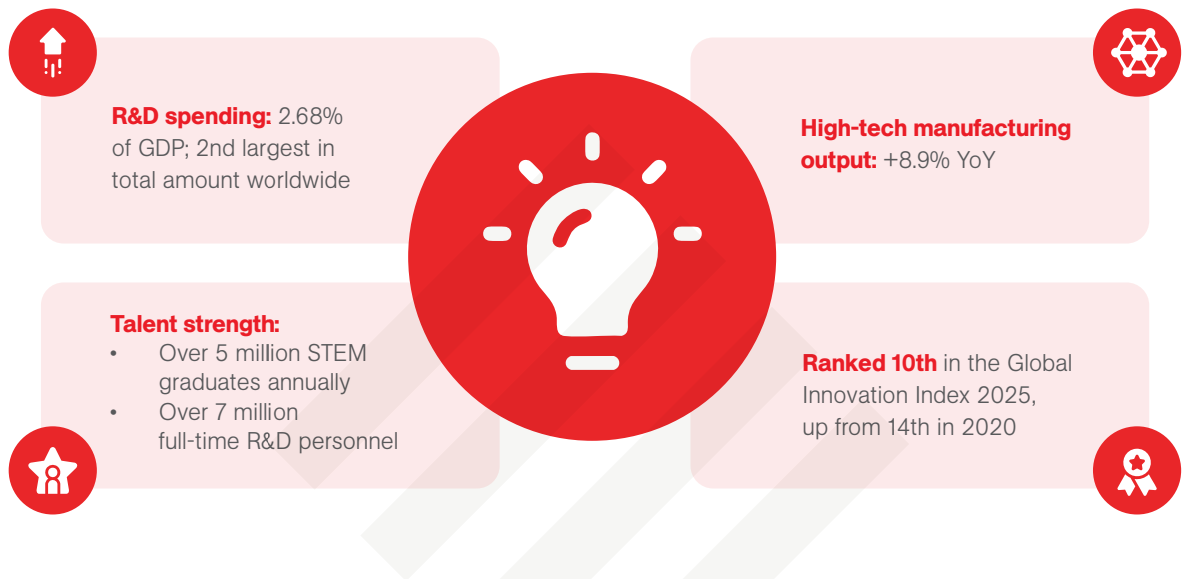
Manufacturing and supply chain leadership

China has the world's most comprehensive and integrated industrial ecosystem, covering every industrial category in the UN system.



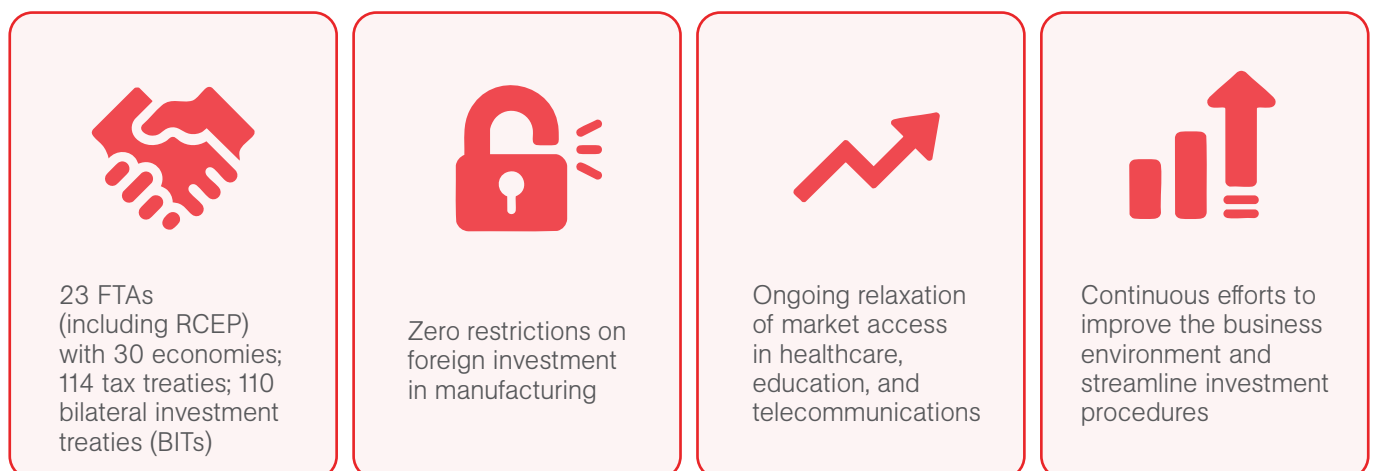
Innovation and R&D competitiveness

China's rapid product development, digital adoption, and innovation capabilities increasingly shape global standards.



Global connectivity and market access

China continues to expand international linkages and improve market openness to support high-quality investment.





A key enabler of this leadership is China's vast labor market, supported by a workforce that is generally more experienced, better educated, and better resourced than many Asian peers. This depth of human capital sustains high productivity and allows rapid adaptation to advanced processes, including precision engineering and automation-driven production lines.

China's logistics and infrastructure network further reinforces its manufacturing capacity. The country offers a stable power supply, increasingly supplemented by renewable energy sources, an advantage for businesses facing stricter carbon footprint requirements. Its world-class shipping hubs, extensive expressway and high-speed rail systems, and multimodal corridors such as the China-Europe Railway Express and New Western Land-Sea Corridor ensure both cost efficiency and speed-to-market and supply chain resilience.

Beyond traditional sectors, China has evolved into a hub for high-tech manufacturing, including electric vehicles, semiconductors, robotics, and renewable energy equipment. Strategic initiatives like Made in China 2025 and subsequent industrial policies have propelled the country up the global value chain, enabling large-scale production of complex, high-technology products. This capability positions China as a critical node in global supply chains, offering foreign investors access to advanced production networks and innovation ecosystems that are difficult to replicate elsewhere.

Innovation and R&D competitiveness

China has rapidly emerged as a global innovation powerhouse, reshaping technology standards and accelerating product development cycles worldwide. In 2025, China ranked 10th in the Global Innovation Index, up from 14th in 2020, marking its first entry into the top 10.

This progress is backed by sustained investment: R&D spending reached 2.68 percent of GDP in 2024, making China the world's second-largest R&D investor in absolute terms. The country's innovation ecosystem benefits from a vast talent pool, producing over 5 million STEM graduates annually and employing more than 7 million full-time R&D personnel, the largest globally. These resources enable China to lead in critical fields such as AI, biotechnology, advanced manufacturing, and green technologies.

China's innovation advantage is not just about scale – it's about speed and integration. Domestic firms excel in rapid product development and digital adoption, often compressing design-to-market timelines from months to weeks. This agility, combined with deep integration between research institutions and industry, allows breakthroughs to move quickly from lab to large-scale production.

Trade and investment agreement framework

China has actively built an extensive network of international agreements to facilitate trade and investment, including bilateral investment treaties (BITs), free trade agreements (FTAs), and double taxation agreements (DTAs). These frameworks have significantly shaped regional trade flows and supply chain integration, reinforcing China's role as a central hub in Asia's economic architecture.

Currently, China has signed 23 FTAs covering 30 countries and regional blocs, including ASEAN's 10 member states, providing preferential market access and tariff reductions. In addition, 10 FTAs are under negotiation, with 7 more under consideration, signaling continued expansion of China's trade footprint. On the investment side, China maintains 110 BITs in force, with another 17 signed but pending implementation, offering foreign investors greater protection and predictability. Furthermore, 114 DTAs have been concluded, reducing tax burdens and mitigating double taxation risks for cross-border businesses.

For European companies, China serves as a strategic gateway to the Regional Comprehensive Economic Partnership (RCEP), the world's largest trade bloc. Leveraging RCEP through China allows firms to capitalize on tariff advantages, benefit from China's advanced industrial base and comprehensive supply chains and seamlessly connect with other member states. This positioning enables businesses to expand across Asia more efficiently and integrate into one of the most dynamic regional economies globally.

Market reform and opening up

China continues to advance market-opening reforms aimed at attracting high-quality foreign investment and improving the overall business environment. These efforts include relaxing market access restrictions, streamlining regulatory processes, and signaling a long-term commitment to openness.

A cornerstone of these reforms is the revision of the Negative List for Foreign Investment Access, which specifies industries subject to special administrative measures. The 2024 Negative List marked a major milestone by removing all restrictions on foreign investment in China's manufacturing sector and pledging further liberalization in critical service industries such as telecommunications, education, and healthcare.

In line with these commitments, China introduced several pilot programs to expand foreign participation in high-growth sectors. In September 2024, foreign investment was permitted in cell and gene therapy across four free trade zones, alongside approval for wholly foreign-owned hospitals in nine major cities. In October 2024, another pilot program allowed 100 percent foreign ownership of data centers and value-added telecommunications services in Beijing, Shanghai, Hainan, and Shenzhen.

These measures create significant opportunities for foreign investors, particularly in biotech, healthcare, and digital infrastructure, sectors that are central to China's innovation-driven growth strategy. By easing entry barriers and fostering competition, China reinforces its commitment to attracting global capital and accelerating technological advancement in key industries.

China investment outlook 2026

China offers unique speed, scale, ecosystems, and capabilities that are difficult to replicate elsewhere. Its deep manufacturing base, integrated supply chains, abundant engineering talent, and vast consumer and industrial markets allow companies to experiment, scale, and commercialize new products more quickly than in most other economies. These advantages provide a strategic edge that continues to anchor foreign investors to the market. For many companies, staying in China has become a defensive necessity rather than an expansion driven solely by superior profit potential.

Against this backdrop, foreign investment is expected to continue flowing into China, and the number of newly established foreign-invested enterprises is likely to keep rising. While sentiment is more cautious and geopolitical factors persist, companies still view China as essential to maintaining global relevance and operational resilience.



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Establishing and Running a Business

- ◆ What are my options for investment?
- ◆ How do I establish a business?
- ◆ How do I make changes to my business?

What are my options for investment?



SABRINA ZHANG

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Foreign investment into the People's Republic of China (hereafter "China") can be made via one of several types of investment vehicles. Choosing the appropriate investment structure for your business depends on a number of factors, including its planned activities, industry, and investment size.

In this section, we discuss:¹

- Representative office (RO);
- Wholly foreign-owned enterprise (WFOE);
- Joint venture (JV);
- Foreign invested partnership (FIP);
- Mergers and acquisitions (M&A);
- Variable interest entity (VIE); and
- Alternative options for entering into the China market.

Representative office (RO)

An RO is an attractive way for foreign investors to get a feel for the Chinese market as it is the easiest type of foreign investment structure to set up. Unlike more robust vehicles, such as the WFOE, an RO is an extension of the foreign company without independent legal personality. That is to say, it does not possess the capacity for civil rights and cannot independently assume civil liability. When an RO signs a contract, it is the foreign company that is bound by the agreement.

Besides, there are only a limited number of activities an RO is permitted to be engaged in. ROs are generally forbidden from engaging in any profit-seeking activities and may only be used to facilitate the activities of the foreign company in China. These are:

- Market research, display, and publicity activities that relate to company products or services; and
- Liaison activities that relate to product sales or services and domestic procurement and investment.

ROs acting in violation of their allowed activities will be fined, and their illegitimate income will be confiscated.

In addition, as an RO is not a capitalized legal entity in China, it is limited in its hiring ability. An RO cannot directly hire Chinese employees. Instead, it is required to employ local staff through a qualified labor dispatch agency. The agency acts as the employer for legal purposes, and sends employees to work at the RO for a fee. An RO may directly hire up to four foreign nationals as the representatives, and these do not need to go through the agency.

“ROs are often used by foreign companies to facilitate activities in China, such as communicating and liaising with China-based agents and distributors.”

¹ Under the Foreign Investment Law, the terms of the WFOE Law and the JV Law are no longer binding. Nevertheless, we still use WFOE and JV to refer to relevant investment forms for consistency and easier communication.

Even though an RO does not earn revenue, it is still subject to Chinese tax. ROs are taxed as a permanent establishment in China, which usually amounts to a liability of approximately eight percent of the total expenses of the RO.

RO is generally a good solution for companies that are procuring from China and want to keep staff on the ground for quality control, or for maintaining short communication lines with China-based suppliers, agents, and distributors.

Wholly foreign-owned enterprise (WFOE)

A WFOE is a limited liability company wholly owned by one or more foreign investor(s), which offers a very straightforward management structure.

Unlike an RO, a WFOE can make profits and issue local invoices in RMB to its suppliers. A WFOE can employ local staff directly, without any obligations to employ the services of an employment agency. A WFOE can also expand to create subsidiaries in China.

And compared to a JV, a WFOE has better autonomy and flexibility to execute the company policies intended by the investors without considering the Chinese partner. It is also believed to be better at protecting the company's intellectual property and technology.

However, the setup procedure of a WFOE is more complicated. And WFOE is not feasible if the targeted sector is listed as "restrictive" in the *Special Administrative Measures on Access to Foreign Investment* ("National Negative List") or the *Free Trade Zone Special Administrative Measures on Access to Foreign Investment* ("FTZ Negative list"), where foreign investors need to have a Chinese equity partner to form the business. In other words, incorporating a WFOE to engage in these sectors would not be permitted. Investors that try to do so will see their application denied. WFOEs that engage in these activities illegally after being incorporated face fines or even the cancellation of their business license.

There are three distinct WFOE setups available:

- Service (or consulting) WFOE;
- Trading WFOE; and
- Manufacturing WFOE.

While all three structures share the same legal identity, they differ significantly in terms of their setup procedures, costs, and the range of commercial activities in which they are allowed to engage. Trading WFOEs and manufacturing WFOEs must derive the majority of their revenue from their namesake business, but can also provide associated services. Service WFOEs are additionally permitted to conduct trading activities related to their services.

Joint venture (JV)

Joint ventures (JVs) are business entities formed by one or more foreign investors in partnership with one or more Chinese partners (including individuals), sharing ownership, control, and profits. Foreign investors typically choose a JV structure for two primary reasons:

- To access restricted industries: Certain sectors permit foreign investment only through a JV with a Chinese partner, as mandated by law.
- To leverage local expertise: Partnering with a Chinese entity provides access to established sales channels, market knowledge, and local networks, facilitating smoother market entry and operations.

Before the enactment of the *Foreign Investment Law* (FIL), there were two types of JVs in China: equity joint ventures (EJVs) and cooperative joint ventures (CJVs). These differed primarily in how profits and losses were distributed. With the FIL taking effect on January 1, 2020, newly established JVs are now governed by the provisions of the Company Law. JVs formed before January 1, 2020, under the previous EJV Law or CJV Law, have a five-year transitional period (ending January 1, 2025) to make the necessary adjustments to comply with the new requirements.

While leveraging the JV option, it is crucial to examine past experiences to understand why many JVs in China have been unsuccessful or short-lived. The most common reasons for the JVs failures include:

- Lack of clear communication: Partners fail to clearly articulate their respective goals and objectives when establishing the JV.
- Unequal contributions: Partners provide different levels of investment, resources, or assets (both tangible and intangible) that deviate from the original agreement.
- Cultural and operational differences: Disparities in corporate cultures, management styles, and business approaches lead to misunderstandings, poor cooperation, and ineffective integration in daily operations.
- Unaddressed funding needs: Failure to discuss future capital increases or fundraising methods for business development, which can impact shareholding percentages.
- Inadequate planning for contingencies: Absence of mechanisms for resolving deadlocks, or provisions for exit and termination in cases where expectations are not met.

These challenges highlight that many JV failures stem from deficiencies in the JV agreement on critical matters. To successfully capitalize on the JV model, both parties must design and agree upon a clear, comprehensive, and forward-looking JV agreement. This ensures the business relationship is established professionally and effectively, minimizing the potential for future disputes and fostering a productive partnership.



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Foreign invested partnership (FIP)

An often-overlooked option is the FIP, which was introduced in 2010. As the name suggests, this entity requires two or more investors to conduct business together. The option would therefore not work for foreign investors looking to set up an entity over which they have 100 percent control. In addition, foreign investors cannot engage in sectors subject to equity limitations as provided in the negative lists via an FIP.

An FIP can be newly established by foreign investors contributing to the partnership, or by acquiring the equity interests in an existing domestic partnership.

A partnership is not a separate legal entity, but a contractual arrangement between two or more parties to do business together under a common name, and is registered as such with the government. Instead of having to stay within the boundaries of the *Company Law*, a partnership affords investors broad freedoms to make internal arrangements as they see fit. For example, the profit shares and voting rights need not be aligned with the investor's capital contribution.

While the *Partnership Enterprise Law* says that, in principle, the unanimous approval of all other partners is needed when a partner sells their share in the partnership, investors are free to stipulate otherwise in the agreement. It can therefore be much easier to transfer one's participation in a venture this way.

In practice, FIPs sometimes are used by foreign private equity funds to manage money in China through limited partnerships.

Mergers and acquisitions (M&A)

In addition to greenfield investment in which a company makes foreign direct investment by building operations from the ground up, investors can also expand their business presence in China by acquiring existing assets or buying a controlling stake in an existing company, i.e., M&A.

In general, acquiring an existing company can simplify a lot of the tedious details involved in entering a new market, such as the lengthy setup processes. Also, it can help a company acquire capabilities it cannot or does not want to develop internally. By becoming the controlling stakeholder of the acquired company, the acquirer can obtain difficult-to-acquire licenses, such as the permit for running medical institutions, and also utilize the established experience and framework of the acquired company to better prepare for the market conditions they are about to face. More importantly, if an existing company holds a significant market share in the sector that the investor plans to enter, the extended time to market and competition for a greenfield investment may not be worthwhile.

However, the effectiveness of such an arrangement is largely dependent on the makeup of both the acquiring company and the acquired company. Companies have different work cultures,



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“Choosing an investment structure depends largely on your goals in China. For companies looking to target the Chinese consumer, the foreign invested commercial enterprise (FICE) has become the gold standard investment model.”

management styles, and operational procedures. It can be a difficult task to combine the best of both sides to achieve the desired synergies. The acquiring company can only gain a quick and strong foothold in the target market when the two parties are compatible with each other.

For this reason, it is imperative that thorough due diligence of both companies is done beforehand on the assets, contracts, credit and debt, employment relationships, and management of both firms, to expose sensitive areas, disputes, and weaknesses so that the transaction is made on the basis of fair, transparent, and reasonable evaluations.

Another factor to be noted is that the definition of foreign investment under the FIL includes a foreign investor acquiring shares and assets of a Chinese enterprise. Consequently, all FDI rules and regulations must be observed, including restrictions on investment, qualifications of investors, and scope of business. In addition, M&As in China are subject to antitrust review as required by the *Anti-Monopoly Law* and a potential national security review if the transaction could raise national security concerns.

Variable interest entity (VIE)

VIE structures are adopted by many foreign investors to engage in sectors that are restricted or prohibited to foreign investment in China as provided in the negative lists, such as telecommunication and education.

Under this model, foreign investors retain final control over the China domestic operating entities through a series of contractual arrangements rather than direct shareholding. Consequently, there are risks that the investors' control over the structure might be threatened by the intentional breach of the contractual arrangements.

In addition, the government's attitude towards VIE structure remains vague. There is no clarification in the FIL whether it is legitimate and whether it falls within the scope of 'foreign investment'. However, in the *Implementing Regulations on the Promotion of Private Education (Revised in 2021)*, VIE structure is explicitly prohibited in the sector. VIE structure could be regarded as illegal in such sectors that are not yet open to foreign investment. On the other hand, the China Securities Regulatory Commission (CSRC) – the China security watchdog – confirmed that qualified companies with VIE structures can still go public on foreign stock markets. Foreign investors interested in this structure are recommended to closely follow the regulatory trends.



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“ With global economic headwinds continuously affecting the business world, SMEs are suggested to reconsider M&A as a strategy that can help them survive and thrive in a dynamic China market. ”

Alternative options for entering the China market

In addition to traditional investment options, foreign investors are actively exploring alternative arrangements to enter the Chinese market at a lower cost and with greater flexibility. This strategic approach aims to adapt to the evolving business landscape.

Overall, an increasing number of foreign investors and businesses are pursuing methods to sell into or source from China while maintaining a minimal on-site team and operational footprint. They rely more on virtual support services to ensure compliance with local regulations.

Some emerging options include:

- Professional employer organization (PEO)'s employer service;
- Exporter of record (EOR) and importer of record (IOR) service;
- Cross-border trade; and
- Virtual office service.

PEO's employer service

Traditionally recognized as a form of full-service human resource outsourcing, PEO (Professional Employer Organization) employer services have been utilized by some foreign investors to enter or sustain a presence in the Chinese market.

Under the PEO employer service arrangement, the PEO service provider signs separate contracts with both the foreign company and the employees designated to work for the China investment. While the day-to-day control and working relationship with employees remain with the overseas company and its outsourced hires, the local PEO service provider in China manages payroll and tax filing, benefits administration, compliance, and risk mitigation.

This setup allows foreign companies to benefit from having full-time staff working in overseas markets while staying compliant with local laws, without the time and investment required to establish and operate an overseas establishment. As an entry strategy, it frees up critical resources for the foreign firm to explore options in a new or unfamiliar market. Investors can leverage this arrangement to gain firsthand knowledge of the local business environment and culture, assess market suitability, plan against supply chain disruptions, and establish a sustainable long-term strategy.

For those reconsidering their China strategy and contemplating scaling down their exposure without a complete exit, PEO employer services offer a viable option to maintain a small number of employees on the ground conveniently and at a lower cost.

EOR and IOR service

For foreign investors looking to sell into or source from China, EOR and IOR services have emerged as convenient and secure options for managing export and import processes, eliminating the need for physical representation or a presence in China.

EOR or IOR refers to an authorized person or entity responsible for ensuring the successful export or import of goods. The EOR or IOR is tasked with acquiring necessary export/import documentation, such as licenses and permits, and their name is included on shipping documentation as the exporter or importer. Additionally, EOR or IOR services encompass:

- Accurately describing and valuing exported/imported goods;
- Ensuring compliance with export/import regulations and securing customs clearance;
- Meeting all financial obligations;
- Being accountable for the release of goods; and
- Maintaining relevant documentation for audits.

While a freight forwarder or customs broker can theoretically serve as the EOR or IOR, they often lack the expertise and resources to perform these tasks.

EOR or IOR becomes particularly essential when foreign investors lack a legal entity in China or possess one without foreign trade registration, necessary licenses or permits, or expertise in local compliance requirements.

Utilizing an EOR or IOR streamlines import/export efforts, mitigates associated risks, and ensures efficient shipment delivery. This approach enables foreign investors to expand their business into the China market without investing significant time and resources in research and development.

Cross-border trade

Cross-border trade is another option utilized by foreign investors to sell into or source from China.

This type of trade involves international commercial activities where entities getting clearance from different countries engage in transactions through e-commerce platforms, conduct electronic payment settlements, and deliver goods through cross-border trade logistics or off-site warehousing to complete transactions. Due to the essential role of e-commerce platforms in this arrangement, cross-border trade is commonly referred to as cross-border e-commerce.

In simpler terms, when a foreign investor sells a product from overseas to buyers in China or sources a product from China to a foreign country through cross-border e-commerce platforms, it qualifies as cross-border trade.

China, being the world's largest e-commerce market, actively promotes cross-border trade by establishing bonded areas and e-commerce pilot zones, facilitating the import and export of goods, and offering attractive tax incentives.

For products sold to Chinese consumers through cross-border trade, transactions valued below RMB 5,000 or total annual e-commerce transactions below RMB 26,000 are exempt from import tariffs and can enjoy a 30 percent value-added tax or consumption tax reduction if applicable.

Moreover, selling directly to Chinese consumers via cross-border trade comes with the advantage of minimal administrative requirements, and in many cases, an online store can be launched within months. In addition to not requiring a legal entity in China, the customs clearance and the labeling requirements might be less stringent compared to general trade, subject to certain qualifications. Many platforms also support merchants by handling administrative affairs like customs registration and clearance procedures.

However, this convenience comes with trade-offs. E-commerce platforms often require relatively large security deposits to manage the risk associated with hosting products from foreign entities. Notably, not all products can be sold via cross-border trade; only those listed in the *Cross-Border E-Commerce Retail Import Commodities List* (the CBEC Whitelist) can enter China through this mode.

Virtual office service

A virtual office service is another cost-effective option for foreign investors seeking entry into the Chinese market. This service provides businesses with a physical address and office-related amenities without the need for long leases or administrative staff hires. The flexibility of month-to-month leasing allows foreign investors to make changes to their business setup as needed.

Additionally, a virtual office typically offers services such as a mailing address, phone answering services, videoconferencing capabilities, and access to meeting rooms when required, creating the appearance of a larger business entity. This setup is particularly popular among startups and small businesses, especially in an era where remote work is increasingly prevalent.

However, the use of a virtual office address for company registration depends on local regulations. While virtual office services are more accessible and widely accepted in larger cities, careful consideration and research are necessary when planning a business structure that involves virtual office services in smaller cities.

Effective pre-planning is crucial for utilizing certain services provided by virtual offices, such as meeting room usage. The potential impact on productivity in a remote work setting is also a consideration for businesses operating in a virtual office environment.



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Comparison of Different Investment Options			
Investment options	Common purpose(s)	Pros	Cons
RO	- Market research - Liaise with overseas headquarters	- Easiest foreign investment structure to set up - Paves way for future investment	- Cannot invoice locally in RMB - Must recruit staff from local agency; no more than four representatives - Heavily taxed if expenses are high
WFOE	- Manufacturing - Servicing - Trading (if a FICE)	- Greater freedom in business activities than RO 100% ownership and management control	- Registered capital requirement (for select industries) - Lengthy establishment process
JV	- Entering industries that by law require a local partner - Leveraging a partner's existing facilities, workforce, sales/ distribution channels	See common purposes	- Split profits - Less management control than a WFOE - Technology transfer/IP risks - Inheriting partner liabilities
FIP	- Investment vehicle - Servicing	- Allows for domestic and foreign ownership - Easier setup	- Unlimited liability of the general partner - Newness of structure (potential challenges with taxation or foreign currency exchange)
M&A	Expanding business presence in a new market without establishing operations from the ground up	- Simplify the tedious details involved in a greenfield investment - Inherit the market share and established framework of the target company - Help the investing company acquire capabilities it cannot or does not want to develop internally	- Subject to all FDI restrictions and rules - Higher scrutiny from the authority - Antitrust review and potential security review - Post-merger integrations may require additional resources
VIE	Getting access to sectors that are restricted or prohibited to foreign investment	See common purpose	- Breach risks of the contractual arrangement - Vague attitude of the Chinese authority towards VIE structure
Alternative options for entering the China market	- Market research - Selling into or source from China	- Cost efficient - Greater flexibility - Mitigated risks	- Limited capabilities - Temporary arrangements rather than long term strategies

How do I establish a business?

When establishing a company in China, it is highly advisable to seek professional assistance to guide you through the complex setup procedure and outline the roles and responsibilities of key positions in the company. This can be a critical factor in ensuring the success of the venture and avoiding time-consuming changes to the company later on down the line.

In this section, we discuss:

- Pre-establishment considerations;
- Corporate establishment;
- Key positions in a foreign invested entity;
- Office premises requirements;
- Opening a bank account; and
- Intellectual property.

Pre-establishment considerations

Business scope

The business scope is an enumeration of the commercial activities in which a business is authorized to operate in. It is administered by two state bodies - the Ministry of Commerce (MOFCOM) and the State Administration for Market Regulation (SAMR)¹ - and is printed on its business license along with other registered information such as its name, registered capital, and legal representative.

For foreign businesses, it's imperative that the company operations must be reflected accurately in the business scope. Under the current laws and regulations, foreign investors are still restricted or prohibited to engage in certain sectors, as stipulated in the National Negative List and the FTZ Negative List.

In addition to the legal risk of disingenuously operating in an unregistered domain, not keeping the company's commercial operations within the range of activities set out in its registered business scope can also be detrimental to a company's ability to issue official invoices (*fapiao*) to its clients. While a company still can issue *fapiao* for occasional activities out of the business scope, regular discrepancies may trigger potential tax investigations. It is therefore critical that companies carefully plan their business scope prior to initial incorporation in China, or else risk having to undergo the onerous and time-consuming process of changing this later.

Depending on the business scope, FIEs can be classified as being a manufacturing company, a service company, a trading company, regional headquarters, an R&D center, an investment company, or several others. Often, the capital requirements will differ depending on the type of company that is being incorporated.



FANNY ZHANG
Senior Manager
Business Advisory Services
Beijing Office

“Setting your business up right from the start can save a lot of hassle in the long run.”

¹ In 2018, China announced a sweeping restructuring of its government institutions, under which the the State Administration for Industry and Commerce (SAIC) was integrated into the State Administration for Market Regulation (SAMR). In practice, SAMR and its local branches might still be referred as AIC as the body in charge among business society.

Registered capital

Registered capital is the fund all the shareholders contribute or promise to contribute to the company when they apply to the local Administration of Market Regulation (AMR) for incorporation of the company. The amount of the registered capital depends on a range of factors, which include the region, the sector, the company's business scope, the planned scale of operations, etc. It will show in the company's business license, this information is available to the public to show the fund strength or capacity of a company to some extent.

China follows a subscribed capital model, which means that the capital contributions do not need to be paid upfront. Previously, the subscribed capital could be injected under a schedule determined by the company itself. However, according to the New Company Law passed on December 29, 2023, shareholders of a Limited Liability Company (LLC) must pay their subscribed capital in full within five years of the company's establishment.

There is no minimum registered capital requirement for corporate establishment except few industries, such as banking, financing, insurance, etc. Despite this, in practice, the governing authorities will ensure that a company's registered capital is sufficient to support its business operations for at least one year, including its rent, labor costs, and office expenses.

Besides, the registered capital amount will be used by authorities to assess the size of the company. Consequently, the registered capital amount can impact the company's eligibility for various preferential treatments, including tax incentives, funding opportunities, and participation in bidding projects.

Moreover, the registered capital can affect the amount of offshore debt the FIE can borrow from other investors or foreign banks, if the FIE chooses to follow the ratio between registered capital and total investment¹ as shown in the following chart. The upper limits of the offshore debt is the gap between the total investment and the registered capital.

Investment to Capital Ratios	
Total investment (US\$)	Minimum registered capital
3 million or less	7/10 of total investment
3 million - 4.2 million	US\$2.1 million
4.2 million - 10 million	1/2 of total investment
10 million - 12.5 million	US\$5 million
12.5 million - 30 million	2/5 of total investment
30 million - 36 million	US\$12 million
36 million or greater	1/3 of total investment

Registered capital contributions can be made cash or in kind, as a lump sum, or in installments. The company's payment schedule for contributions must be specified in its Articles of Association, and once paid, the amount cannot be freely wired out again.

¹ Offshore debt can also be decided by another method called "macroprudential management of foreign debt" method, the calculation of which is more complicated.



RELATED READING



CHINA BRIEFING

Complying with New Registered Capital Rules under China's Revised Company Law

China Briefing Article
July 8, 2024

Under the amended Company Law, shareholders of limited liability companies will be required to pay their subscribed capital within five years of corporate establishment. Companies established before the new Company Law takes effect should pay attention to the timeline to adapt to the new rules on registered capital in China.

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Expense and tax planning

When setting up a company in China, one inevitably incurs costs prior to the company being formally incorporated. The question then arises what part of these costs may be deducted from the company's tax bill. This becomes especially relevant if the investment is a large project, such as setting up a factory and purchasing machinery, where the costs incurred prior to incorporation can be substantial.

An FIE, being an independent legal entity registered in China, is taxed on its income, and may therefore deduct expenses from Chinese tax. As pre-incorporation expenses by definition have been incurred prior to the FIE formally existing, only some of these expenses can be taken on by the FIE. Of all the expenses made before formal incorporation, only the so-called pre-operation costs (开办费) may be allocated to the FIE and deducted. The key point in defining pre-operation costs is the time when they occurred.

In practice, the starting point of this period is seen as either the establishment date on the business license, or the day on which the investor gets the company name confirmation from the AMR. This is usually one month before the establishment date on the business license. The ending point of the pre-operation cost period is when the company issues its first invoice, or generates its first revenue.

Most of the costs incurred during this period, such as wages, training, printing, transport fees, registration fees, and purchases of items not considered fixed assets, may be deducted if relevant valid tax invoices can be provided. Up to 60 percent of advertising and business-related entertainment expenses (business dinners, gifts, baijiu, etc.) may be allocated to the FIE during this period.

It is often hard to predict what the establishment date of the company will be. This largely depends on how the incorporation process is conducted. However, the better the investor manages the incorporation from its side, the more clarity one can hope to get.

Before the company is incorporated, the foreign investor may open a temporary bank account in China. The investor may wire foreign currency into this account and spend these funds on pre-operation and other expenses. After the company has been established, it needs to open a capital account. The funds from the temporary account can then be wired to this account. In practice, the only cost incurred prior to the pre-operation cost period is office rent. Allocation to the FIE is accepted, as an office lease is a required step of the incorporation process.

Enterprises, especially manufacturing companies, which often have a long pre-operation period, should take careful consideration of when their pre-operation period ends. These companies in particular need to make sure costs incurred can be carried forward as a loss over the next few years.

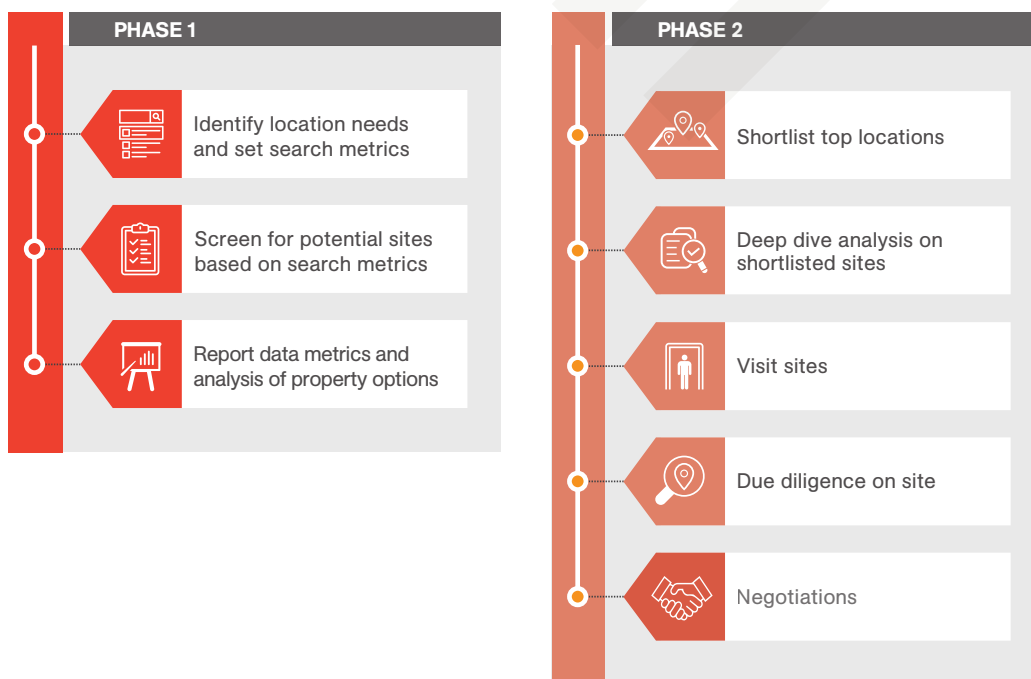
Location

Choosing a location is one of the first decisions that companies must make when entering a new market. Location and a strategic site selection plan can have a major impact on the success of the business, affecting production, operation, and sales. Therefore, companies must take steps to ensure they have the right information before committing their time and money.

Some locations offer more preferential policies to foreign investment based on the local economic priorities, such as the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), the Hainan Free Trade Port (FTP), Western China, and the pilot free trade zones (FTZs). By far, China has established 22 FTZs, which constitutes part of China's efforts to transform into a more innovative, service, and consumption-driven economy and the creation of sustainable and high-end manufacturing capacity to attract international businesses.

However, investors are not suggested to make decisions solely based on preferential policies. Rather, there are multiple considerations that companies must grapple with when choosing a location, including but not limited to real estate, infrastructure, supplier and customer market, cost, operating environment, legal and regulatory environment, and human resources.

A Typical Location Search Service Process



Corporate establishment

Establishing a foreign investment structure in China generally takes between three and six months and involves the following government authorities:

- Ministry of Commerce (MOFCOM) and its local branches;
- State Administration for Market Regulation (SAMR) and its local branches;
- State Administration of Foreign Exchange (SAFE) and its local branches;
- State Taxation Administration (STA) and its local branches;
- General Administration of Customs (GAC) and its local branches; and
- National Bureau of Statistics (NBS) and its local branches.

The establishment process varies based on one's chosen investment structure and planned business scope. For example, manufacturing WFOEs require an environmental evaluation report be completed, while trading WFOEs need to comply with the customs/commodity inspection requirements.

Holding company

Many companies choose to establish holding companies, or “special purpose vehicles”, in jurisdictions, such as Hong Kong or Singapore, to hold their Chinese entity. Holding companies allow for an additional layer of distance between the Chinese subsidiary and parent company, and can “ring-fence” the investment to an extent, protecting it from the potential risks and liabilities of the Chinese subsidiary. In the case that an investor wishes to sell their Chinese business, or introduce a third-party partner/shareholder into the structure, the administrative changes can also be done at the holding company level, rather than at the China level, where the regulatory environment is tougher and procedures are more time-consuming.

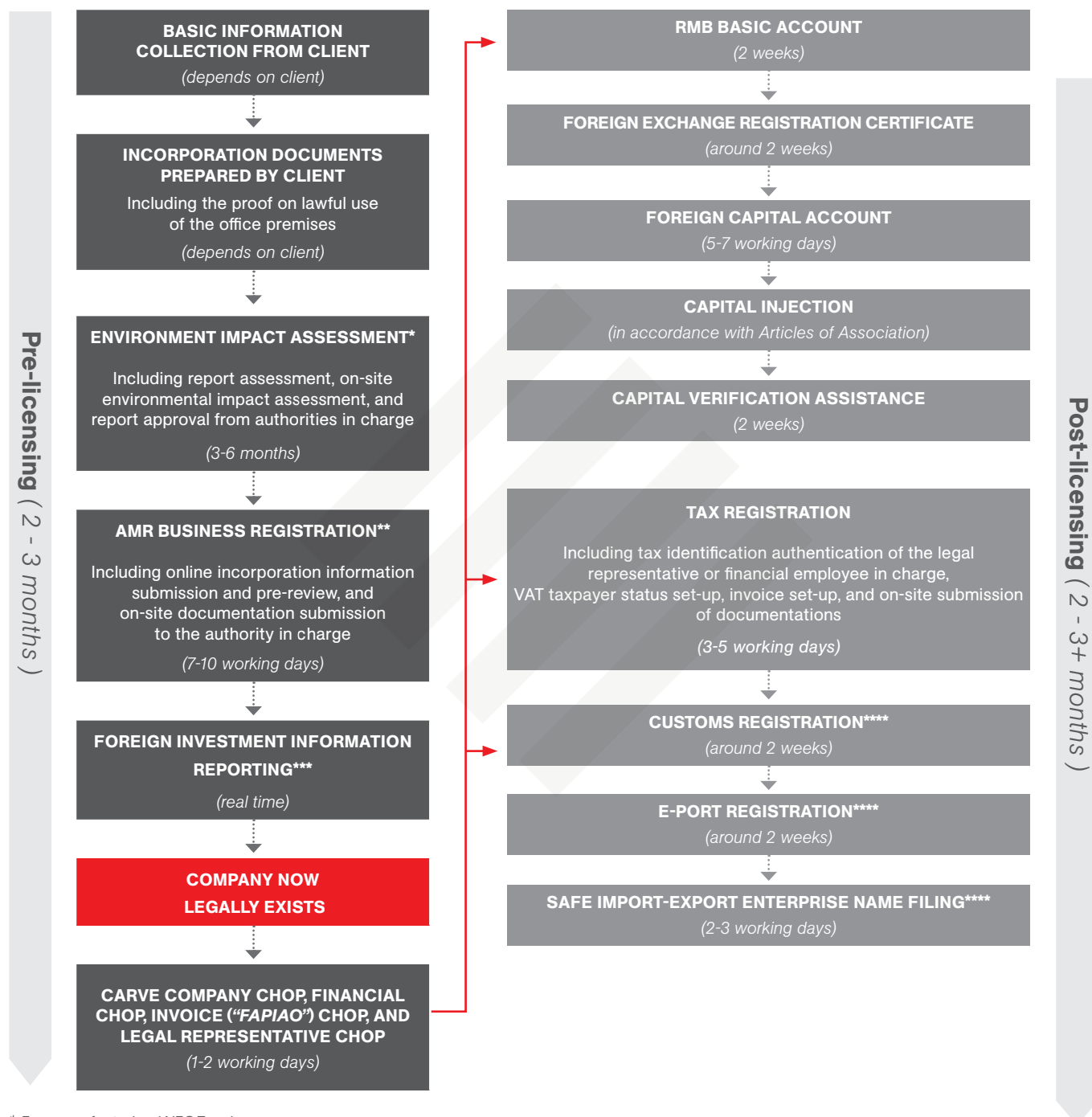
Given the comparatively sophisticated banking systems of Hong Kong and Singapore, establishing a holding company in either jurisdiction is a popular option for foreign companies wishing to hold their China-earned profits offshore. In this way, the profits can be re-invested into China if the need arises, or used to further expand operations elsewhere in Asia. Subject to the parent country's anti-avoidance tax rules, this method is often used as a tax deferral mechanism for foreign companies who do not want to remit their China profits immediately back to the home country.

In addition, Hong Kong and Singapore holding companies present a number of tax advantages, including reduced withholding tax rates on the repatriation of profits and limiting tax exposure on capital gains.

Note that the Foreign Account Tax Compliance Act (FATCA) has significantly disrupted the ability of U.S. investors to open or maintain bank accounts through Hong Kong, threatening to cut off the cash flow to their mainland China subsidiaries. Although also a signatory to FATCA, Singapore appears to be less affected by these developments.

Below we take WFOE as an example to demonstrate the setup procedure.

WFOE Setup Procedure*



* For manufacturing WFOE only.

**If an applicant submits an application through the 'many-in-one' process and needs to simultaneously complete customs registration when registering a market entity with the AMR, they must select the customs registration option as required and provide the necessary additional registration information. The AMR will process the registration accordingly and share the data with the General Administration of Customs at the national level. This eliminates the need for the enterprise to submit a separate registration application to customs.

*** No separate reporting is needed in cities offering one-stop service such as Shanghai. The reporting can be conducted contemporaneously after the company name is filed for record.

****For manufacturing and trading WFOE only.

Beneficiary owner filing

On April 29, 2024, the People's Bank of China (PBOC) and the State Administration for Market Regulation (SAMR) jointly issued the *Administrative Measures on Beneficial Owner Information* (referred to as the “2024 BOI Measures”). The new measures took effect from November 1, 2024.

The 2024 BOI Measures add another layer to China's beneficiary owner filing system. According to the 2024 BOI Measures, market entities—including companies, partnerships, and branches of foreign companies in China—are mandated to file their beneficiary owner information through the relevant registration system. Failure to comply may result in a penalty of up to RMB 50,000 (approximately US\$6,900).

For new entities established after November 1, 2024, they must file beneficial owner information through the relevant registration system during establishment registration. If establishment registration cannot be done via the registration system, it can be completed on-site. Beneficial owner information should still be filed within 30 days from the establishment registration date.

Non-corporate legal persons, sole proprietorships, farmer cooperatives (and their federations) and their branches, as well as branches of domestic companies and partnerships, are temporarily exempt from filing beneficial ownership information. For registered entities with a registered capital not exceeding RMB 10 million (or its equivalent in foreign currency) and where all shareholders or partners are natural persons, there is an exemption: If there are no natural persons other than shareholders or partners exercising actual control over the entity or benefiting from it through means other than equity or partnership interests, these eligible entities can read and confirm a commitment letter in the system to be exempted from further reporting of beneficial ownership information.



RELATED READING



CHINA BRIEFING

China's Enhanced Beneficiary Owner Filing System: Key Points of New Measures

China Briefing Article
October 9, 2025

In this article, we explore the essential aspects of China's beneficial owner filing system, delving into the definition and determination of the beneficial owner, the filing requirements, and upcoming developments that businesses should be aware of.

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Key positions in a foreign invested entity

The key positions in a foreign invested entity vary by the investment structure and size, with some overlap. ROs should designate a chief representative to sign documents on behalf of the company. In addition to a chief representative, an RO can also nominate three more general representatives. For WFOEs and JVs, key positions include shareholders, an executive director (or board of directors), supervisor(s), general manager, chief finance officer (CFO), and legal representative.

Shareholders and executive director (or board of directors)

For WFOEs, the board of shareholders represents the highest authority of the company, whose decisions regarding company operations are executed by the executive director or board of directors. For JVs established before January 1, 2020, i.e. the effective date of the FIL, the board of directors is the highest authority. But they will need to make relevant changes within the five-year transitional period, before January 1, 2025. For JVs established after January 1, 2020, the board of shareholders will be the highest authority of the entity.

Supervisor(s)

WFOEs generally need to have at least one supervisor to oversee the execution of company duties by the director(s) and senior management personnel. For JVs, this used not to be a mandatory obligation before the FIL enacted. However, starting from January 1, 2020, newly established JVs are also required to have supervisors following the rules stipulated in the *Company Law*, while JVs formed prior to January 1, 2020 are required to make relevant adjustment before January 1, 2025.

Under the New Company Law, it allows LLCs to establish an “audit committee” within the board of directors, in which case it would not need to establish a board of supervisors (or appoint any supervisors). The audit committee can be “composed of directors on the board of directors [and] exercise the powers of the board of supervisors”. Meanwhile, the New Company Law specifies that small-scale LLCs or those with a limited number of shareholders can appoint a single supervisor. And with unanimous shareholder consent, they can forgo appointing a supervisor altogether.

General manager

Both WFOEs and JVs need a general manager who is responsible for day-to-day company operations. This position may be concurrently filled by the executive director or a member of the board of directors. For JVs, several deputy general managers can also be appointed; this group is collectively referred to as the management office.



INES LIU

Senior Manager
International Business Advisory
Beijing Office

“The legal representative is the person who really carries responsibility for a company in China. You will need to appoint someone who is not just technically competent, but China competent.”

Chief financial officer

Chief financial officer (CFO), or financial employee in charge, is a key personnel of a company that has primary responsibility for managing the company's finances, including financial planning, finance and accounting compliance, taxation, cash flow tracking, as well as financial reporting analysis.

CFO is senior management by nature and typically reports to the general manager of the company. This position may be concurrently filled by a member of the board of directors. CFO is of special importance in China during the company setup stage, where the CFO needs to go through real name authentication and be the contact person with the authority in charge.

Legal representative

Every business established in China, foreign or domestic, is required to designate a legal representative, i.e. the person responsible for performing the duties and powers on behalf of a company. The legal representative is, by definition of their role, one of the most powerful people in a FIE. Yet this power comes with heavy responsibility, and if a single individual in a foreign invested entity is to be held accountable for company actions, that person is more likely than not the legal representative. The 2018 Company Law used to require that the legal representative of company holds the post of chairman, executive director, or manager, which can be difficult to implement in practice. The New Company Law expands the scope of selection of legal representatives to all directors or managers who carry out affairs on behalf of the company.

Powers and responsibilities of a legal representative

The *Company Law* does not clearly define the powers of a legal representative. However, it is clear that a legal representative is authorized to perform all acts regarding the general administration of a company according to the company's aims and objectives. This may include:

- Acting (legally) to conserve the company's assets;
- Executing powers of attorney on the company's behalf;
- Authorizing legal representation of and litigation by the company; and
- Executing any legal transactions that are within the nature and scope of that company's business.

Impact of the New Company Law on key positions in FIEs

The New Company Law introduces significant adjustments to the regulation of corporate governance structures. Specifically for limited liability companies (LLCs), it offers shareholders considerable flexibility in selecting the company's governance framework.

Supervisor(s)

One of the major changes in the New Company Law is the provision to allow LLCs to establish an "audit committee" within the board of directors, in which case it would not need to establish a board of supervisors (or appoint any supervisors). The audit committee can be "composed of directors on the board of directors [and] exercise the powers of the board of supervisors". Meanwhile, Article 83 specifies that small-scale LLCs or those with a limited number of shareholders can appoint a single supervisor. And with unanimous shareholder consent, they can forgo appointing a supervisor altogether.

To put it simply, an LLC can forgo establishing a board of supervisors or appointing individual supervisors if it either creates an audit committee within its board of directors or gains unanimous consent from its shareholders.

Employee directors

Another significant change in corporate governance is that the New Company Law strengthens democratic management of the company and adjusts the requirements for appointing employee directors.

In contrast to the existing Company Law, which requires only companies with State-owned capital to have employee directors, the New Company Law mandates that LLCs with more than 300 employees must include employee representatives on their board of directors unless the company has already established a board of supervisors and there are employee representatives in it.

Given that the New Company Law stipulates that the board of supervisors must include a certain proportion of employee representatives, an FIE will not need to appoint employee directors if it has already established a board of supervisors. This is because all boards of supervisors should inherently include employee representatives by default.

Power division among shareholders, directors, and executives

The New Company Law grants greater flexibility in the allocation of powers among shareholders' meetings, boards of directors, and executives. Notably, the statutory powers of shareholders' meetings have been somewhat reduced. Matters that were previously reserved for shareholders' meetings, such as decisions on the company's business policies and investment plans, now fall within the purview of the board of directors under the New Company Law. Additionally, beyond the enumerated scope of board of directors' powers, shareholders' meetings can explicitly grant additional authority to the board of directors. For instance, shareholders' meetings may authorize the board of directors to make decisions regarding the issuance of corporate bonds (Article 59). Simultaneously, the new law eliminates the specific listing of managerial powers found in the existing Company Law. Managerial authority is now entirely subject to the company's articles of association and the agreements of the board of directors (Article 74).



RELATED READING



CHINA BRIEFING

China's New Company Law: Considerations for Foreign Stakeholders and FIEs

China Briefing Article
June 12, 2024

The New Company Law brings substantial changes with implications for new and existing foreign invested enterprises and stakeholders. Foreign investors must assess if adjustments to existing structures or new business negotiations are necessary.

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Office premises requirements

To register a FIE in China, it is a prerequisite to own or lease office premises¹ (as the primary place of business) and register this with the local AMR in charge. Doing so requires that the FIE possess all legal documents pertaining to the premises as required by the Chinese authorities, such as the Real Estate Ownership Certificate. If the office premises is leased from another individual or organization, the lease term of the original lease agreement should be no shorter than one year.

Generally, the AMR does not accept “residential” purpose real estates to be used for business registrations. The purpose of the premises as indicated in the Real Estate Ownership Certificate, (i.e., residential purpose, commercial purpose, or industrial purpose) must match the nature of the businesses. For example, the premises for a FICE should be for commercial use, while the premises for a manufacturing company should be for industrial use.

In most cases, only one business may be registered per office unit. Under limited conditions, one office unit can be used to register multiple businesses.

Many new entrants to the China market find success using serviced offices offered by a number of providers in major cities across China. For recent start-ups or foreign companies wanting to test the waters first, having to lease office space can be a burdensome commitment. Serviced offices offer an option in which businesses can lease the required office space under flexible terms and at more accessible prices. Apart from simply being a cost-efficient way to meet the office space requirement, using a serviced office provider allows companies to use their on-demand services, such as IT packages, secretarial support and meeting rooms. While these often-tiny work places can offer a solution, it is important to realize that not all of them are in compliance with the AMR standards. Investors who consider this option are suggested to confirm with the serviced office as well as the authority in charge whether the serviced office address can be used as premises for business registration.



VIKTOR ROJKOV

Manager

International Business Advisory
Shanghai Office

“If a company intends to include retail activities in its business scope, the company needs to be registered at an address suitable for the specific retail activities. The investor is advised to double-check the suitability of the premises before signing the lease agreement.”

¹ In some cases, virtual offices might be accepted as registered address, such as in some industrial parks.

Opening a bank account

Once obtaining a business license in China, the newly established FIE must choose a specific bank to open the bank account, without which the entity will not be able to carry out its daily operation.

Account types

FIEs in China need to establish at minimum two bank accounts: an RMB basic account and a foreign currency capital contribution account.

1. RMB basic account

An FIE must have one (and only one) RMB basic account for daily business operations in China¹. This account is the only account from which the company can withdraw RMB cash. The RMB basic account often acts as a designated account for making tax payments.

2. Foreign currency capital contribution account

An FIE must also have a foreign currency capital contribution account to receive capital injections from the foreign investor. Approval to open this account can be obtained from the SAFE.

Additional general RMB accounts and other types of foreign currency accounts can be opened for different purposes. For foreign currency accounts, these may include a settlement account for the collection of current items in a foreign currency, foreign debt special accounts, and temporary capital accounts.

International and Chinese banks

Foreign investors can establish the above accounts in China through international banks with a local presence, the major banks being Bank of East Asia, Citibank, DBS Bank, Hang Seng Bank, HSBC and Standard Chartered; or through a Chinese bank, the largest being Industrial and Commercial Bank of China, Bank of China, China Construction Bank, Agricultural Bank of China, and Bank of Communications.

Foreign investors in China often prefer to establish an account with an international bank because of an existing business relationship. However, establishing accounts with a Chinese bank has a number of advantages, namely:

- The application process for opening a bank account with an international bank in China will be more document-intensive and take longer compared to opening such an account at a Chinese bank;

¹ China is piloting to remove the RMB basic account requirement in Lingang arear, Shanghai FTZ.



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- There are substantially more Chinese commercial banks than foreign bank branches, which allows for more convenient and faster RMB remittance;
- Most Chinese companies have local bank accounts – conducting transactions with them will be easier and faster if done from a Chinese bank instead of an international bank; and
- Bank account security.

When opening a bank account in China, an FIE will need to specify what will act as the “signature” of the company. Usually the company’s financial chop (seal) is required to do so, along with either the legal representative’s chop (or chief representative’s chop for an RO) and a handwritten signature. Banks generally prefer using the legal representative’s chop instead of a handwritten signature, as the latter is easier to forge and harder to verify.

Many bank transactions can now be done online in English, including the approval of transactions and viewing account balances from abroad. It is possible and sometimes necessary to make tax payments online in many cities by signing a three-party agreement with an authorized Chinese bank.

For an entity’s RMB basic account, it is possible to apply for different levels of e-banking access and multiple security keys (in the form of a key-ring/USB dongle) – one with access rights and another with approval rights. Another common security measure is a device that generates a new password for every check that is written.

What are the latest requirements for opening a bank account in China?

Foreign investors might get the feeling that it will not be a straightforward process to become the bank’s new clients. This is because banks in China are subject to high scrutiny from the People’s Bank of China (PBOC), resulting in the emphasis now given to the KYC (know your client) policy. Under PBOC direction, Chinese banks have also become stricter about opening bank accounts since April 2020, especially for newly established companies – no matter whether it is a domestic company or a foreign invested company.

To validate the “real business” of the applicant, banks have now implemented an on-site visit procedure. This procedure includes a bank officer visiting the physical location (the office) of the applicants to verify that they have a physical location and staff. The photo of the location with the company nameplate and a business license will be taken for the bank’s internal compliance purposes.

Based on this situation, the bank will require the individual who has submitted their passport as verification documentation on behalf of the company (the legal representative, that is) to be present at the time of the account opening, which is difficult to manage with the ongoing COVID-19 pandemic and the travel restriction policies implemented in China. Investors are suggested to contact the bank or consult with professional services for solutions.

Intellectual property considerations

Intellectual property (IP) protection is a longstanding and critical concern for companies operating in China, which has also been a key point of contention in the US-China trade war. China has already made strides in recent years to improve IP protection as the government seeks to spur domestic Chinese innovation and improve the business environment for investment, such as revising its IP laws and establishing a new national IP appeals court. However, challenges remain, as counterfeiters and infringers are getting increasingly sophisticated. For example, infringers may take advantage of procedural loopholes and proactively seek to invalidate legitimate IP rights. Companies are thus suggested to develop a comprehensive strategy to identify and protect their IP in China. This includes enhancing internal controls and making the best use of external resources.

In China, IP is defined as a proprietary right enjoyed by a holder with respect to their works, inventions, trademarks, geographical indications, trade secrets, layout design of integrated circuits, new varieties of plants, etc. Among others, copyrights on works, patent rights on inventions, utility models, and designs, and trademark rights, are the most common IP rights.

China follows the principle of territoriality in IP protection, meaning IP rights acquired under the laws of a country can only be valid and protected within the territory of that country unless an international convention or bilateral or multilateral agreement is in place. What that means is that enjoying IP rights in a foreign country will not automatically secure the IP rights in China. A domestic IP registration/filing in China is necessary to effectively protect your IP in the country.

Besides, China mainly applies a “first-to-file” rule for IP registration, which means that the first entity or individual who registers IP rights will hold those rights exclusively, irrelevant of the original user, with limited exceptions. Thus, the first and foremost strategy we can offer is to register/file your IP rights in China as early as possible.

In addition to registration, businesses are also suggested to establish a thorough internal IP protection system, to adopt preventive measures to protect IP, and to confront IP infringements in business operations. This system can be set up with the help of external third-party professional services, especially for businesses that are new to China and have limited knowledge of China’s trademark protection situation.

For businesses engaging in import-export, they are suggested to file their patent, copyright, or trademark, with the customs authorities. This is necessary because:

- It is a prerequisite for the customs to take active IP protection measures.
- It helps customs to find infringing goods.
- It can have a deterrent effect on the infringer.



MONICA LI

Manager
Business Advisory Services
Beijing Office

“To protect their IPR, most FIEs adopt measures to proactively search the internet for violations, in addition to sending staff to corporate functions and trade fairs.”

How do I make changes to my business?

Making changes to a Chinese entity after establishment – such as to its range of commercial activities or registered address – can be challenging and onerous.

In some cases, closing the entity all together and starting from scratch may be easier, or even mandatory. For these reasons, it is always better to start out with a clear and informed business plan, rather than attempt to make on-the-fly adjustments later on.

In this section, we discuss:

- Company name;
- Business scope;
- Registered capital;
- Shareholder structure;
- RO to WFOE conversion; and
- Relocation.

Company name

The procedure for changing the name of a company in China is quite complex. Because a company's name is displayed on several types of official documents (such as its business license and company chop), any changes to this information must be filed with each respective governing authority.

- **Step 1:** After preparing several new company name options that are in line with the company name requirements imposed by the laws and regulations, the company should conduct a company name self-declaration on the platform maintained by the AMR, which can spotlight duplications, similarities, and other prohibitive or restrictive situations at the same time. In some cities, the self-declaration might be integrated with the company name change registration. Under certain situations, the company may need to go through a company name pre-approval procedure instead, such as when the new company name contains “China”, “national”, “international”, etc.
- **Step 2:** The company should prepare the documentation required for the company name change registration, which includes a board resolution¹ (or shareholder resolution) on the matter and an amended Articles of Association signed by the legal representative, among others.
- **Step 3:** The company must file an application with the local AMR for company name change registration. Upon examination and approval, a new business license with updated information will be issued to the company.
- **Step 4:** FIEs are also required to submit a change report through the foreign investment reporting system, which might be integrated with the company name change registration in cities offering one-stop services.

¹ JVs that haven't adapt to the new governing structure based on the FIL need to pass a board resolution on the matter.

- **Step 5:** After the name change procedures has been successfully made with the AMR, the company must then go about updating other documents on which its name appears, including various types of chops (Financial Chop, Company Chop, Customs Declaration Chop, etc.), which must be newly carved and registered with the company's local public security bureau. Moreover, the company will have to make changes to all ongoing contracts with suppliers, clients and employees.

Business scope

Generally, when an enterprise intends to change its business scope, it must first come out with a board resolution (or shareholder resolution) and amend its Article of Association on this matter. After that, the company need to file the modified business scope with the local AMR within 30 days of the resolution being made, and submit a change report through the foreign investment reporting system (which might be integrated with the AMR registration in cities offering one-stop services). Upon registration with AMR being completed, the enterprise will get a new business license. Following this, other business certificates and bank information may need to be amended correspondingly.

To be noted, if the new business scope diverges significantly from the original business of the company, the company name should be changed as well, since this must generally reflect the main business of the company.

Registered capital

If companies plan to adjust their registered capital bases on financial, strategic, or regulatory considerations, similar to other changes, it is a time-consuming process that involves working with multiple government authorities. Generally, increasing registered capital is easier than decreasing registered capital, the latter of which involves additional procedures.

- **Step 1:** The company should reach a board resolution (for JVs that haven't changed their organizational structure in accordance with the Company Law) or shareholder resolution on the matter and revise the Article of Association accordingly.
- **Step 2:** To decrease registered capital, a balance sheet and an inventory of assets must be prepared. The company needs to inform the creditor within 10 days of the company resolution and announce the decrease in a designated newspaper within 30 days of the company resolution.
- **Step 3:** The company should apply to the local branch of SAMR for a business license update within 30 days of the company resolution.
- **Step 4:** The company should make relevant updates in the bank regarding capital increase/decrease.



RELATED READING



CHINA BRIEFING

Increasing and Decreasing Registered Capital in China – A Guide for FIEs

*China Briefing Article
September 24, 2023*

Changing registered capital in China is a complex procedure that involves several government agencies and a long list of paperwork. Despite the difficulties, there are several scenarios in which it is beneficial or even necessary for companies to go through the process. We explain these scenarios and provide a step-by-step guide for changing registered capital.

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- **Step 5:** The company should apply to the SAFE to make relevant foreign exchange registration.
- **Step 6:** FIEs are also required to submit a change report through the foreign investment reporting system, which might be integrated with the company name change registration in cities offering one-stop services.

The bank will facilitate the capital increase afterwards. And other business certificates may need to be amended correspondingly.

Shareholder structure

A company typically decides to make changes to its shareholder structure upon the entrance of a new shareholder who is to receive an equity transfer from one or more existing shareholders.

Alternatively, it may be necessary to revise the shareholder structure as the result of equity transfers between shareholders or the exit of a shareholder from the company. Though information on company shareholders is not explicitly listed on a Chinese business license, in most cases, the company will still need to apply for a new business license, especially where the registered information listed on the business license needs to be changed as a consequence.

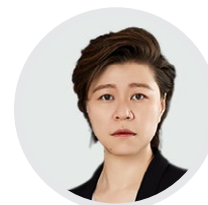
- **Step 1:** An equity transfer agreement should be signed between the transferor and the transferee. The transfer agreement must be a valid agreement that is reached through due procedure stipulated in relevant laws and regulations. For example, when equity is transferred to someone other than the original shareholders, there must be proper documents to show the transfer agreement is agreed by the current shareholders. In addition, there must be proper documentation to show the qualification of the new shareholder.
- **Step 2:** The equity transferor or transferee (the taxpayer) shall file with the competent tax authorities and obtain a tax payment certificate for relevant taxes incurred or a tax exemption certificate.
- **Step 3:** The company must apply to the original AMR of registration for a change of company shareholders within 30 days of the change being made.
- **Step 4:** The company should submit a change report through the foreign investment reporting system, which might be integrated with the AMR registration in cities offering one-stop services.
- **Step 5:** The company must apply for a new business license if relevant information listed on the business license gets changed.

Following this, other business certificates and bank information may need to be amended correspondingly.

“RO to WFOE conversion”

Multinational companies operating in China through an RO occasionally encounter the need to convert their existing operations to a WFOE, as ROs are unable to engage in profit-making commercial activities. In fact, the act of “converting” an RO to a WFOE is a misnomer; rather, deregistering an RO and establishing a new WFOE are two separate procedures that must be done either in sequence or simultaneously. As an RO has no legal personality, the term “deregistration” is used instead of “liquidation”, though the two processes share many similarities.

- **Step 1:** Prior to actual deregistration, the RO must apply to the local tax bureau in charge of tax audit and tax deregistration. To do so, the RO may first undergo an audit by a local Chinese certified tax agent (CTA) firm for taxes owing from the past three years. Once the audit is completed, the enterprise should submit to the tax bureau a board resolution affixed with the signature and seal of the chairman of the board of directors, as well as a cancellation application signed by the chief representative of the RO. Should any unpaid taxes or other irregularities be found by the tax authorities at any point during this process, the RO may be required to submit additional documentation, pay penalties, or settle unpaid taxes with the authorities.
- **Step 2:** The RO should then deregister its foreign exchange registration in the local SAFE and custom registration in the local customs. In case it has not registered, the RO will still need to get corresponding official statements from the bureaus in charge as proof.
- **Step 3:** The enterprise can then proceed to deregister with its local AMR where its application will be processed within 10 workdays of receipt by law. If successful, the enterprise will be issued a “Notice of Deregistration” and all the registration certificates will be cancelled, as well as the chief representative’s work certificate. Announcement of the RO’s deregistration must be listed in a media outlet designated by the AMR. The RO’s business registration and office lease must be valid up until the official notification of deregistration has been issued by the AMR.
- **Step 4:** The enterprise should close its bank account. Unissued checks and deposit slips will need to be returned to the bank and any funds remaining in the account should be transferred out. If the RO intends to transfer the account to its parent company, it will be required to provide reasons for doing so and seek approval from the bank. In cases where the company is required to submit the company chops during AMR deregistration, the bank account is suggested to be closed before AMR deregistration, as company chops are needed in this process.
- **Step 5:** Notification of the RO’s deregistration should then be filed with the public security bureau to cancel its chops.



ALLAN XU

Partner

Business Advisory Services
Shanghai Office

“Investors need to consider the time and cost involved in the conversion process, and weigh this against the lower tax treatment and other benefits. The higher the RO’s expenses are, the more convincing the case is for conversion.”

The total time required for deregistration is typically three to six months (depending on the region), but can take over a year in cases containing irregularities, particularly in the tax deregistration phase. Fortunately, the new WFOE can be established according to the procedure outlined in the previous section while the RO deregistration process is underway.

RO Deregistration Procedure and Timeline

	Steps and instruction		Approximate time
Phase 1		Deregistration with tax bureau in charge	1-2 months
Phase 2*		Deregistration with customs Deregistration with SAFE	10-20 working days
Phase 3		Deregistration with AMR	5-10 working days
Phase 4		Closure of bank account	1-2 months
Phase 5		Cancellation of chops with public security bureau	1 working day

* Even if the RO did not register with customs and the SAFE, it still needs to get corroborating official statements from the bureaus in charge as proof.

Relocation

Considering relocation is a troublesome and costly process despite its long-term benefits, companies rarely build the relocation decision on a single factor. Rising operating costs and increased regulatory scrutiny are a major concern for businesses located in developed regions, while new incentives and lower costs tend to attract businesses to less developed areas. Investors seeking a competitive edge have many reasons to move their business.

China's inland provinces are rapidly becoming the new center of the country's manufacturing industry, evidenced by the growth in exports from central and western provinces. Offering lower production costs while remaining deeply integrated into existing supply chains, these areas offer a compelling alternative to companies seeking to relocate from the more expensive manufacturing hubs in eastern and southern China. This shift in manufacturing locations within China serve as an alternative to reshoring or the so called "China Plus" strategy.

Other popular relocation destinations include FTZs, industrial parks and zones, industrial clusters, as well as areas with less regulatory scrutiny on certain aspects.

When a business decides to relocate, and picks a site after careful analysis and comparison, the next step is to develop a suitable relocation strategy on the operational level. This entails a number of regulatory formalities and compliance issues that a business needs to treat carefully ahead of the relocation, namely in regard to legal, tax, and human resource (HR) considerations.

Where the company plans to relocate within the same city, the process in most cases is quite smooth and straightforward. The company just needs to apply to the same government bureaus that they dealt with during their setup process to make the relevant amendments to their business certificates.

In the scenario of a direct cross-city relocation—meaning a move to a new city with a modified business address while retaining the same entity—it is a more challenging and time-consuming process compared to relocating within the same city. Direct relocation adheres to a chronological order, requiring the completion of specific steps before moving on to the next. Consequently, some business suspension is inevitable before everything returns to normal.

An alternative strategy for cross-city relocation involves deregistering the current entity and establishing a new entity in the target location. With this approach, the company must complete all incorporation procedures anew, and it cannot retain the same company name — requiring the re-signing of all commercial contracts. However, this strategy offers a more flexible timeframe as the setup of the new entity and the deregistration of the old entity can progress simultaneously.



SABRINA ZHANG

Partner
Beijing Office

“While the steps for deregistering an RO are few, the difficulty of tax deregistration should not be underestimated.”

Yet another strategy for accomplishing cross-city relocation is to merge the current entity with an entity in the targeted location. With this approach, the company has the option not to liquidate the current entity immediately. In this scenario, there is flexibility in transferring assets, managing business relationships, and addressing liabilities such as debts and employee matters, allowing for a more gradual transition process.

In addition, the company can also open a branch office in the desired location. Branches are easier to set up and maintain, but limited in many ways, such as not being able to expand beyond their parent company's business scope.

Branch Office (BO)		
Common purposes	Pros	Cons
• Geographic expansion • Alternative to relocation	• Simple establishment • Easy maintenance (only branches wishing to invoice must declare taxable items from locally produced invoices)	• Limited business scope (must be within that of the parent; cannot import or export) • Not a legal entity (all liabilities born by the parent company)



BUSINESS RESTRUCTURING

As one of the largest operations in Asia for registering foreign-owned businesses, Dezan Shira is well equipped to advise companies on the optimal way to structure their business entities to meet their goals and maximize operational efficiency. Our business advisors can advise on all matters related to cross-border transfers of assets, relocation, as well as mergers and acquisitions.

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Business suspension

Business suspension, or company dormancy, refers to a policy that allows enterprises to cease business activities during a given period of time and return to the market when they are financially and operationally stable.

According to the *Administrative Regulation of the People's Republic of China on the Registration of Market Entities* (the Regulation) and its Implementing Rules that took effect on March 1, 2022, business suspension is applicable to those situations when the company's normal operation is challenged by factors like natural disaster, accident, public health incident, or public security incident. The company can decide to suspend its business for a certain period by its own assessment, but the suspension period cannot be more than three years. A business suspension filing with the local AMR is required to turn the company's status to "business suspension".

For the company to become dormant, the law in China currently does not impose many restrictions on applicant eligibility. Generally speaking, the company should not be included in the blacklist of abnormal operations or serious illegal and dishonest acts, and the business suspension filing should not endanger national security, public interests, the rights and interests of trading counterparties, etc.

During the business suspension period, the company shall be exempted from retaining physical premises, and the company can suspend their business operation legally, without getting their business license revoked. Besides, the dormant status may also bring the following benefits to the company:

- Reserve the company name;
- Reserve the special license or pre-approval, which is hard to apply for again in a special industry;
- Protect the company's branding or other intangible assets;
- Hold a particular type of physical asset, such as property; and
- Save the time and cost of winding down the company and opening a new entity in the future.

To be noted, however, the Regulation and its Implementing Rules provide clear guidance on how the dormant company should deal with its tax obligations, such as whether the company is still required to complete monthly/quarterly/annually tax filing or not. The corresponding tax responsibility during the suspension period, however, still needs to be clarified by the competent tax authority.

Moreover, the Regulation and its Implementing Rules do not state that business suspension can be used as a lawful reason for termination. The company can only use the business suspension situation as a strategic condition in the termination negotiation, rather than as a ground to unilaterally terminate its employees.

Deregistration

Companies in China may want to end their operations for various reasons, due to changes in their business scope, failure to adapt in the market, or external pressures like the US-China trade war. Irrespective of what factors might trigger this decision to shut down the business, investors cannot simply walk away without following proper closure procedures.

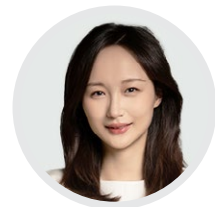
For one, not properly closing the company will attract stringent penalties from the government's tax and regulatory bodies. It could also do lasting damage to the reputation of the company – both in the eyes of the law and among consumers – as the business will be blacklisted.

Moreover, in case of improper closure, the legal representatives and financial associates of the entity will face difficulty in moving out of the country, starting another business, or even conducting ordinary banking and financial transactions if they are based in China.

The *Company Law* stipulates certain requirements before triggering the closure of a company. This includes organizing the liquidation of the company prior to the cancellation of its registration, followed by the announcement of the termination of the company. Overall, the company deregistration process requires dealing with multiple government agencies, including the respective industrial and commercial bureaus, market regulatory bureaus, tax departments, and banking authorities.

Take WFOE closure as an example, the following steps offer a rough guideline to the deregistration procedure:

- Form a liquidation committee and prepare an internal plan
- Liquidate the assets
- File a record with SAMR
- Newspaper announcement
- File a record with MOFCOM
- Begin terminating employees
- Tax clearance and deregistration
- SAMR deregistration
- Deregister with other departments
- Bank account closure
- Cancel company chops



CHENCHEN LIU

Manager
Business Advisory Services
Shanghai Office

“A WFOE will usually be subject to special attention during its closure procedure, involving more steps and authority involvement than that of its representative office and Chinese company counterparts.”

While each case is unique, the whole process of deregistration can take up to a year or longer. The time taken to successfully close a business depends on the enterprise' preparedness, credit-debt record, level of compliance, and submission of information to various government departments. For example, it typically takes six months to one year to deregister a RO and even longer in case of irregularities. In the case of a WFOE, it typically takes between 12 to 14 months.

The STA has issued the *Notice on Further Optimizing the Procedures for Dealing with Enterprise Tax Deregistration* (henceforth Notice) to ease the difficulties of enterprise deregistration. The Notice takes measures to reduce enterprises' repeated errands and to issue tax clearance certificates on the spot even when some enterprises submit incomplete documents.

In particular, the newly introduced commitment system presumes the integrity of the enterprise, which may be reflected in a positive inspections record, high tax credit ratings, and no tax or fines owed. In such situations, the tax clearance time will be unaffected, and only a commitment is needed from the legal representative deregistering the company to provide all tax-related information within a stipulated time period.

Through the above measures, many expect that the cancellation time of enterprises can be reduced by at least one-third. At the same time, the government will strictly investigate business entities indulging in the evasion of debt. The names and information on enterprises that have lost credibility due to non-compliance or debt evasion will be jointly published by the respective government agencies.

Closing a business requires a holistic view of every aspect of the business – whether it be HR, tax, legal, accounting, IT, logistics, or stock and inventory. Many of these issues are intensified when a company is inactive or there has been insufficient preparation. When an investor decides to close a business, making a plan is essential to staying ahead at each stage of the closure process, and can mean avoiding lengthy delays, added costs, and serious consequences. Businesses should ensure they retain an experienced local advisor to avoid some of these common challenges and pitfalls.



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Tax, Audit, and Accounting

- ◆ What are the major taxes in China?
- ◆ What are some of the key compliance requirements?

What are the major taxes in China?

Income taxes

Corporate income tax (CIT)

According to China's *Corporate Income Tax Law*, all enterprises (except sole proprietorships and partnerships), including all organizations that generate income in China, are subject to CIT.

CIT payable is calculated using the below formula:

$$\text{CIT PAYABLE} = \text{CIT TAXABLE INCOME} \times \text{CIT RATE} - \text{TAX EXEMPTIONS OR REDUCTIONS BASED ON TAX INCENTIVES}$$

CIT is calculated against the company's net income in a financial year after deducting reasonable business costs and losses – in other words, it is effectively a tax on profits. CIT in China is settled on an annual basis but is often paid quarterly, with adjustments either refunded or carried forward to the next year. The final calculation is based on a company's year-end audit.

The CIT rate applied to all companies in China today, both foreign and domestic, is 25 percent. Reduced CIT rates are available based on the entity type, size, sector, or location. A reduced CIT rate of 20 percent is applied to small and low-profit enterprises (SLPEs) on 25 percent of the taxable income amount for the portion of taxable income not exceeding RMB 1 million (effective from January 1, 2023 – December 31, 2027) which means the effective CIT rate is five percent. If a taxpayer qualifies as a high-tech enterprise or is engaged in certain sectors within certain regions (such as Lingang and Hengqin), a reduced CIT rate of 15 percent applies.

At the same time, China provides multiple CIT incentives to qualified enterprises. Besides lower CIT tax rates, other CIT incentives include CIT exemption on certain type of incomes, such as dividends, bonuses, and other equity investment income between qualified resident enterprises; CIT reductions on certain incomes, such as income derived from eligible technology transfer; additional pre-tax deduction of certain expenses, such as research and development (R&D) expenses; tax credits for certain costs, such as the investment in seed-stage or start-up technology enterprises; and accelerated depreciation or one-time deduction of the value of fixed assets.



RELATED READING



Guide to Corporate Taxation and Compliance in China 2025

This edition of Tax, Accounting, and Audit in China, updated for 2025, offers a comprehensive overview of the major taxes foreign investors are likely to encounter when establishing or operating a business in China, as well as other tax-relevant obligations.

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Key Preferential CIT Incentives Checklist

- ☐ CIT incentives for small and low profit enterprises (SLPEs)
- ☐ CIT incentives for high and new technology enterprises (HNTes)
- ☐ CIT deductions on R&D expenditures
- ☐ CIT incentives for technology-based small- and medium-sized enterprises (TSMes)
- ☐ CIT incentives for advanced technology service enterprises (ATSEs)
- ☐ CIT incentives for qualified enterprises established in certain regions, such as western China, Hainan FTP, Shanghai Lingang, Shenzhen Qianhai, Fujian Pingtan, and Zhuhai Hengqin
- ☐ CIT incentives for enterprises engaging in pollution control
- ☐ CIT incentives for hiring disabled employees or retired soldiers
- ☐ CIT reduction for enterprises investing in seed-stage or start-up technology enterprises
- ☐ CIT incentives for software enterprises and integrated circuit enterprises
- ☐ CIT incentive for income derived from eligible technology transfers

Deduction Cap for Certain Expenses

Expenses	Deduction cap
Employee welfare	≤14% of the total amount of employee salaries and wages
Labor union funds	≤2% of the total amount of employee salaries and wages
Employee education	≤8% of the total amount of employee salaries and wages (the excess can be carried forward to future years for deduction) 100% deduction for enterprises in software and integrated circuit industries
Business entertainment relating to production and business operations	≤ 60% of the actual incurred amount; and ≤ 0.5% of the sales revenue of the current year.
Advertising and publicity	≤15% of the sales revenue of the current year (the excess can be carried forward to future years for deduction) ≤30% of the sales revenue of the current year (the excess can be carried forward to future years for deduction) for enterprises manufacturing or selling cosmetics, enterprises manufacturing pharmaceuticals, and enterprises manufacturing beverages (excluding alcohol)* Not deductible for tobacco enterprises*

*Effective from January 1, 2021, through December 31, 2025. Businesses should closely monitor for updates and potential policy changes following the expiry date.

Individual income tax (IIT)

In accordance with the *Individual Income Tax Law of China (the IIT Law)*, IIT is imposed on all individuals, including Chinese and foreign nationals, residing in or deriving income from China.

The IIT Law divided IIT taxpayers into two categories: resident taxpayer and non-resident taxpayer. Resident taxpayers refer to individuals who have a domicile in China, or individuals who do not have a domicile in China but have resided in China for 183 days or more cumulatively within a tax year. Non-resident taxpayers refer to individuals who do not have a domicile in China and have not resided in China, or individuals who do not have a domicile in China and have resided in China for less than 183 days cumulatively within a tax year. A tax year starts from January 1 of a calendar year and ends on December 31. Having a domicile here means habitually residing in China due to household registration, family, and economic interests.

Generally, individuals who have no domicile in China won't be subject to paying IIT on their worldwide income until they reside in China for 183 days or more in a year for more than six consecutive years. According to the official statement, the six-year rule counts starting from January 1, 2019. Besides, the count of the six-year can be reset by living in China for less than 183 days in a tax year, or by leaving China for more than 30 days continuously where their days of residence in China has reached 183 days in a tax year.

Under the new IIT Law, the following income of an individual shall be subject to IIT:

- Income from wages and salaries;
- Income from remuneration for personal services (20 percent of the income is regarded as deductible expenses);
- Income from author's remuneration (20 percent of the income is regarded as deductible expenses, and a further 30 percent discount is available when computing the taxable income);
- Income from royalties (20 percent of the income is regarded as deductible expenses);
- Income from business operation;
- Income from interest, dividends and bonuses;
- Income from lease of property;
- Income from transfer of property; and
- Contingent income.

For resident taxpayers, the first four types of income are consolidated into a new category – comprehensive income, and are subject to yearly computation (but employers are still required to compute and withhold the IIT on a monthly basis). The taxable income amount of comprehensive income of a resident individual shall be the balance after deduction of the standard deduction (RMB 60,000 per year, approx. US\$8,500), as well as special deductions, special additional deductions and other deductions determined pursuant to the law, from the income amount of each tax year. The comprehensive income is subject to three to 45 percent of progressive rates on a whole.



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CHINA BRIEFING

Annual IIT Reconciliation in China: Everything You Need to Know

*China Briefing Article
March 21, 2025*

Annual IIT reconciliation is required to be made during the period from March 1 to June 30. During the process, individual taxpayers will need to recheck their IIT paid and deducted in the tax year, calculate the refundable or supplementary tax payable, report to the tax authorities, and make the tax settlement.

[AVAILABLE HERE](#)

IIT Withholding Rates Table for Resident Individuals			
Level	Taxable income amount subject to cumulative withholding (RMB)	Withholding rate	Quick deduction (RMB)
1	≤36,000	3%	0
2	36,000 - 144,000	10%	2,520
3	144,000 - 300,000	20%	16,920
4	300,000 - 420,000	25%	31,920
5	420,000 - 660,000	30%	52,920
6	660,000 - 960,000	35%	85,920
7	>960,000	45%	181,920

For non-resident taxpayers, the first four types of income are computed separately per time or per month when it occurs. The taxable income amount for income from wages and salaries of a non-resident individual shall be the balance after deduction of the standard deduction (RMB 5,000 per month, approx. US\$710), as well as other applicable deductions. The IIT rates for non-resident taxpayers are generally equal to those for resident taxpayers.

IIT Rates Table for Non-resident Individuals (Monthly)		
Taxable income amount (RMB)	IIT rate	Quick deduction (RMB)
≤3,000	3%	0
3,000 - 12,000	10%	210
12,000 - 25,000	20%	1,410
25,000 - 35,000	25%	2,660
35,000 - 55,000	30%	4,410
55,000 - 80,000	35%	7,160
>80,000	45%	15,160

China offers IIT incentives in certain regions, such as the GBA, the Hainan FTP, Shanghai Lingang New Area, and Zhuhai Hengqin. In such regions, the effective IIT rate for qualified talents could be lowered to 15 percent, though the eligibility and application method vary from each other.

Besides, in a move to further improve the business environment and attract foreign talents, China has decided to extend the preferential IIT policy for foreigner's fringe benefits (also referred to as tax-exempt benefits-in-kind) to the end of 2027.

Turnover taxes

Value-added tax (VAT)

VAT is one of two major turnover taxes in China, the other being consumption tax. VAT is levied on the gross margin at every point on the supply chain where value is added to a taxable product or service. It is considered a neutral tax, allowing taxpayers to offset VAT that has already been paid for the cost of materials used in the product at a previous stage.

VAT taxpayers are categorized into general taxpayers and small-scale taxpayers based on their annual taxable sales amount. Taxpayers with annual taxable sales exceeding the annual sales ceiling (RMB 5 million, approx. US\$710,000) set for small-scale taxpayers must apply for general taxpayer status. VAT payers whose annual taxable sales are below the ceiling, as well as those who have newly established their business, can voluntarily apply for general taxpayer recognition upon meeting certain conditions.

Small-scale taxpayers are generally subject to a lower VAT levy rate of three percent as compared to rates ranging from six to 13 percent for general taxpayers, but they cannot credit input VAT from output VAT, nor are they entitled to export VAT refunds.

Export VAT refunds

An “export VAT refund” refers to a refund of part or all of the VAT already paid in China on export goods. Export goods from China are subject to zero rate VAT, meaning VAT will not incur during export and the VAT paid when manufacturing the export goods domestically is refundable.

For general taxpayers, the basic formula for calculating VAT payable is:

$$\text{VAT PAYABLE} = \text{OUTPUT VAT IN THE CURRENT PERIOD} - \text{INPUT VAT IN THE CURRENT PERIOD}$$

$$\text{OUTPUT VAT} = \text{SALES} \times \text{VAT RATE}$$

$$\text{SALES} = \frac{\text{SALES INCLUDING OUTPUT VAT}}{(1 + \text{VAT RATE})}$$

If the output tax for the current period is insufficient to offset the input tax of the current period, the difference can be carried forward to the next term for continued offset. Alternatively, micro and small firms in all industries and qualified enterprises in stipulated industries can apply to fully refund their uncredited VAT on a monthly basis.



JENNY LIAO

Partner

Corporate Accounting Services
Shanghai Office

“Understanding the workings of VAT in China is crucial to the success of any business, especially in terms of securing export refunds. This can be a challenge for US investors, who are typically unfamiliar with VAT systems.”

For small-scale taxpayers, the formula for determining VAT payable is:

VAT	=	SALES X VAT LEVY RATE
SALES	=	SALES INCLUDING VAT / (1 + VAT LEVY RATE)

China offers various VAT incentives to taxpayers based on their business size, sector, and location. In addition to the policy allowing for a full refund of incremental VAT credits on a monthly basis and the additional input VAT deduction for selected sectors, China provides VAT exemptions for small-scale taxpayers whose monthly sales are under RMB 100,000 (approximately US\$14,740) or quarterly sales are under RMB 300,000 (approximately US\$44,220). Furthermore, small-scale taxpayers subject to a VAT levy rate of three percent can benefit from a reduced rate of one percent. Both of these policies will remain effective until December 31, 2027. China also provides VAT incentives for specific sectors, including software and integrated circuit enterprises.

Fapiao

In China, *fapiao* refers to VAT *fapiao* (invoices) in particular. It is a business voucher issued and received by all parties involved in the purchase and sale of goods or services. Different from the commercial invoices or receipts used in many other countries mainly to record transactions, *fapiao* in China serve as both the legal receipt and the tax invoice.

Fapiao can mainly be sorted into two categories – general VAT *fapiao* and special VAT *fapiao*. While special VAT *fapiao* can only be utilized by VAT general taxpayers, general VAT *fapiao* can be utilized by any company registered in China but cannot be used by the recipient for VAT deduction purposes.

These two types of *fapiao* have been in paper form for a long time. However, China has been trying to digitalize its *fapiao* system, first on general VAT *fapiao* since 2015, then expanding to special VAT *fapiao* since 2020. Next, from December 1, 2021, China kicked off another pilot program of fully digitalized e-*fapiao*, which is a completely new type of electronic invoice that is different from the previously introduced normal VAT e-*fapiao* but has the same legal effect. Initially piloted for selected taxpayers in Shanghai, Guangdong, and Inner Mongolia, the program of fully digitalized e-*fapiao* has officially been expanded nationwide starting December 1, 2024.

E-*fapiao* imposes new compliance requirements on the financial and accounting processes and requires software installment and system upgrade. On the other side, it offers a great opportunity for enterprises to further automate and optimize their operations. CFOs and finance managers with responsibility for China operations are suggested to prepare for e-*fapiao*'s impacts on their existing systems and procedures as well as the benefits rooted in the digitalization of VAT invoice.



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CHINA BRIEFING

Unlocking China's New VAT Law: Key Changes, Business Impacts, and Compliance Tips

China Briefing Article
December 2, 2025

China's New Value-Added Tax (VAT) Law marks a major milestone in the country's tax legislation. Set to take effect on January 1, 2026, the law refines VAT regulations, clarifies taxable transactions, simplifies tax rates, and enhances compliance procedures.

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Consumption tax (CT)

Consumption tax is imposed on all the individuals and organizations which manufacture and import taxable products, process taxable products under consignment, or sell taxable products. Generally, consumption tax is levied on the below categories of products:

- Products whose over-consumption is harmful to health, social order and the environment, e.g., tobacco, alcohol, firecrackers and fireworks;
- Luxury goods and non-necessities, such as precious jewelry and cosmetics;
- High-energy consumption and high-end products, such as passenger cars and motorcycles;
- Non-renewable and non-replaceable petroleum products, such as gasoline and diesel oil; and
- Financially significant products, such as yachts.

A company processing taxable goods for others is liable to withhold and pay consumption tax based on the value of the raw materials used. Consumption tax is filed and paid monthly.

Tax rates vary considerably with the type of product in question, ranging from one percent to 56 percent. Consumption tax is calculated ad valorem or based on quantity. The formulae are:

a. Ad Valorem:

$$\text{CONSUMPTION TAX PAYABLE} = \text{TAXABLE SALES AMOUNT} \times \text{TAX RATE}$$

b. Quantity-based:

$$\text{CONSUMPTION TAX PAYABLE} = \text{TAXABLE SALES QUANTITY} \times \text{TAX AMOUNT PER UNIT}$$

c. Compound method:

$$\text{CONSUMPTION TAX PAYABLE} = \text{TAXABLE SALES AMOUNT} \times \text{TAX RATE} + \text{TAXABLE SALES QUANTITY} \times \text{TAX AMOUNT PER UNIT}$$

Other taxes

Withholding tax

Withholding tax is levied on passive income – such as dividends, bonuses, other equity investment gains, interest, rentals, royalties, and property transfers – received by non-resident enterprises from China. The withholding income tax rate is currently 10 percent. If a foreign party is a tax resident of a country or jurisdiction that has entered into a double tax treaty with China that includes reduced withholding tax, the foreign party can enjoy these reduced rates upon approval from the designated tax bureau. The China enterprise remitting the fund overseas should be the withholding agent.



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Surtaxes

Urban maintenance and construction tax (UMCT), in addition to the education surcharge (ES) and local education surcharge (LES), are the typical surtaxes levied in China, which means these taxes are levied on the basis of turnover taxes, rather than the total value of the business transactions. To be more detailed:

- UMCT, rates are seven percent for urban areas, five percent for counties (towns), and one percent for other regions;
- The ES rate is three percent regardless of location; and
- The LES rate is two percent regardless of location.

The total surtaxes amount to 12 percent of the total turnover tax liability (i.e., VAT and CT) in urban areas, meaning that these taxes are levied on the amount of the turnover tax but not the total value of the transaction.

During the period between January 1, 2023 and December 31, 2027, taxpayers that fall into the scope of SLPEs, small-scale taxpayers, or self-employed individuals can enjoy a 50 percent surtaxes reduction.

Customs duties

Customs duties include import duties and export duties, which are computed either on an ad valorem basis or quantity basis. Import duty rates consist of most-favored-nation (MFN) duty rates, conventional duty rates, special preferential duty rates, general duty rates, tariff rates for quota items, and provisional duty rates. Among others, MFN duty rates are the most commonly adopted import duty rates. They are much lower than the general rates which apply to non-MFN nations. The complete list of products affected by MFN duty rates can be found in China's Customs Tariff Implementation Plan, which is subject to yearly update.

The amount of import taxes and customs duty payable is calculated based on the price or value of the imported goods. This value is called the duty paying value (DPV). DPV is determined based on the transacted price of the goods.

“If a foreign party is a tax resident of a country or jurisdiction that has entered into a double tax treaty with China that includes reduced withholding tax, the foreign party can enjoy these reduced rates upon approval from the designated tax bureau.”

Import taxes and duties can be calculated after determining the DPV and the tax and tariff rates of the goods. The formulae are:

Ad valorem basis:

$$\text{DUTY PAYABLE} = \text{DPV} \times \text{TARIFF RATE}$$

Quantity-based:

$$\text{DUTY PAYABLE} = \text{QUANTITY OF IMPORTED GOODS} \times \text{AMOUNT OF DUTY PER UNIT}$$

Compound formula:

$$\text{DUTY PAYABLE} = \text{DPV} \times \text{TARIFF RATE} + \text{QUANTITY OF IMPORTED GOODS} \times \text{AMOUNT OF DUTY PER UNIT}$$

Export duties are only imposed on a few resource products and semi-manufactured goods. In 2023, China imposed export duties on 106 items including lead ores and concentrates, non-alloy aluminum strip, benzene, etc. The tax base for export duties is the same as import duties, i.e. the DPV. The DPV for export duties is based on the transaction price, i.e. the lump sum price receivable by the domestic seller exporting the goods to the buyer. Export duties, freight-related expenses, and insurance fees after loading at the export spot, and commissions borne by the seller, are excluded.

Stamp tax

Stamp tax is levied on entities and individuals who make taxable documents and conduct securities transactions within the territory of China, or who make taxable documents outside the territory of China to be used within the territory of China. Taxable documents refers to contracts, property transfer documents, and business account books. The tax rates vary between 0.005 percent and 0.1 percent. During the period between January 1, 2023 and December 31, 2027, taxpayers that fall into the scope of SLPEs, small-scale taxpayers, or self-employed individuals can enjoy 50 percent tax reduction.



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CHINA BRIEFING

**Annual Filing of Stamp
Tax on Business
Account Books Before
January 15: FAQs**

*China Briefing Article
December 10, 2025*

For taxpayers who choose to pay their stamp tax on business account books on a yearly basis, they are required to make an annual filing. If there is an increase in tax items such as “paid-in capital” and “capital reserve” in the business account books, the taxpayer is bound to complete the stamp tax declaration and payment before January 15. Where there is no increase, it is still necessary to declare zero stamp tax.

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Property tax

Property tax in China is mainly levied on property for commercial purposes. This does not include residential property for self-use, but does include residential properties for lease. The applicable tax rate is 1.2 percent, calculated on the residual value minus between 10 percent and 30 percent of the original value of the property (as determined by the local government). During the period between January 1, 2023 and December 31, 2027, taxpayers that fall into the scope of SLPEs, small-scale taxpayers, or self-employed individuals can enjoy a 50 percent reduction of the tax amount.

It should be noted that China is also considering expanding the property tax to real estate for residential use. This has been piloted in Shanghai and Chongqing since 2011. In October 2021, China further decided to implement a pilot property tax scheme in certain regions. But no details have been revealed so far.

Urban and township land use tax

Individuals and enterprises that use land in cities and towns are subject to urban and township land use tax. The taxable amount per square meter for land use tax is as follows:

- RMB 1.5 to RMB 30 for large cities;
- RMB 1.2 to RMB 24 for medium cities;
- RMB 0.9 to RMB 18 for small cities; and
- RMB 0.6 to RMB 12 for county towns, towns and industrial and mining areas.

Local governments have the right to increase or reduce the tax rate according to their socioeconomic conditions. During the period between January 1, 2023 and December 31, 2027, taxpayers that fall into the scope of SLPEs, small-scale taxpayers, or self-employed individuals can enjoy 50 percent tax reduction.

Land appreciation tax

All organizations and individuals who transfer state-owned land use rights, buildings, and other structures on that land and who earn income from the transfer, should pay land appreciation tax in accordance with relevant laws and regulations.

Calculation of land appreciation tax is based on the appreciation amount gained by the taxpayer through the transfer of real estate (i.e., the balance of the proceeds received by the taxpayer on the transfer of real estate after deducting the sum of deductible items), and should be levied in accordance with a four-step progressive tax rate based on the percentage amount by which the appreciation amount is in excess of the amount of deducted items.

Land Appreciation Tax Rate Levels			
Level	Appreciation/deduction	Tax rate	Quick deduction
1	≤50%	30%	0%
2	> 50% and ≤100%	40%	5%
3	> 100% and ≤200%	50%	15%
4	> 200%	60%	35%

The deductible items include:

- Amount of funds paid to obtain land use rights;
- Costs and expenses incurred in the development of the land; and
- Tax related to the transfer of real estate and other items to be deducted as stipulated by the MOF.

Resource tax

Companies or individuals engaged in the exploitation of certain mineral resources or salt production are liable for resource tax, which was originally calculated ad valorem or based on quantity.

China's Resource Tax Law took effect on September 1, 2020. This law codifies existing taxes on resources, currently encompassing 164 resources, primarily minerals, with tax rates ranging from one percent to 20 percent. Additionally, the Resource Tax Law allows taxpayers to file on a monthly or quarterly basis, with declarations due within 15 days. Before December 31, 2027, taxpayers classified as small-scale taxpayers, self-employed individuals, or those falling under the scope of SLPEs can benefit from a 50 percent reduction in resource tax.

Starting from December 1, 2024, China began implementing a pilot water tax nationwide, replacing the current water fee charging mechanism. The cost burden of water usage for residents and general industrial and commercial activities will remain unchanged. However, the burden will increase for high water consuming industries and specific areas.

Vehicle purchase tax

Vehicle purchase tax is a tax levied on entities and individuals that purchase automobiles, trams, car trailers, and motorcycles with engine displacement exceeding 150cc within the territory of the People's Republic of China.

"Purchase" refers to the act of obtaining a taxable vehicle for own use through purchase, import, self-manufacture, gift, prize-winning, or any other method. A one-off levying and collection shall be implemented for vehicle purchase tax.

Starting from January 1, 2018, the vehicle purchase tax has been exempted for purchase of new energy vehicles (NEVs). This policy is now extended to December 31, 2025, and the tax exemption amount cannot be over RMB 30,000.

Besides, the vehicle purchase tax will be halved for NEVs that will be purchased during the period between January 1, 2026 and December 31, 2027, and the tax reduction amount cannot be over RMB 15,000.

Vehicle and vessel tax

Owners or administrators of certain types of vehicles and vessels are subject to vehicle and vessel tax. Preferential policies are available for energy-saving vehicles/vessels or vehicles/vessels using new energy technology. Tax exemptions may be applied to diplomatic vehicles and vessels. According to the Caishui [2018] No.74, released by the SAT in July 2018, eligible energy-saving vehicles/vessels can enjoy a half-reduced tax rate, and eligible new energy vehicles/vessels can be exempt from vehicle and vessel tax. Automobile manufacturers and importers who are engaged in making or importing qualified vehicles may apply to the Ministry of Industry and Information Technology (MIIT) for the tax incentives.

Environmental protection tax

Environmental protection tax is levied on enterprises, public institutions, and other producers or operators that discharge taxable pollutants directly to the environment within the territorial areas of the People's Republic of China and other sea areas under the jurisdiction of the People's Republic of China.

On January 1, 2018, China's first Environmental Protection Law (EPT Law) came into effect, replacing the previous pollutant discharge fee (PDF) system in a bid to strengthen the enforcement of environmental regulations.

Major contents of the EPT Law, such as taxable items, tax rates, and specification of taxpayers, are largely consistent with the previous PDF system. However, changes concerned with tax incentives and administration authorities significantly differ from the previous system.



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Tax Health and Dispute Strategies for Foreign Firms in China

August 2020

Foreign-invested enterprises (FIEs) operating in China must treat tax health as a competitive advantage—not just a compliance requirement. This issue of China Briefing Magazine provides a strategic roadmap to proactive tax management, covering how to optimize internal controls, prepare for audits, and resolve disputes effectively.

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What are some of the key compliance requirements?



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Accounting and bookkeeping

Businesses operating in China are required to follow the Chinese Accounting Standards (CAS), also known as the Chinese Generally Accepted Accounting Principles (GAAP). The CAS framework is based on two standards:

- Accounting Standards for Business Enterprises (ASBEs); and
- Accounting Standards for Small Business Enterprises (ASSBEs).

The Ministry of Finance (MOF) released ASBEs in 2006 and brought them into effect in January 2007. It experienced several amendments in the following years. Currently, the ASBEs consist of one basic standard, 42 specific standards, and several application guides. Most foreign invested enterprises (FIEs) established in China generally adopt ASBEs for their accounting and financial reports.

Entering into force on January 1, 2013, the ASSBEs are the counterpart of ASBEs for SMEs, providing unified standards for small-size enterprises. The ASSBEs use the ASBEs as a reference but are more similar to tax laws in terms of their tax calculation methods, which simplify the process of making adjustments between accounting standards and tax rules. Small-scale enterprises can choose to adopt either the ASBEs or ASSBEs.

In addition to the CAS framework introduced above, there are also some enterprises adopting the *Accounting System for Business Enterprises*, which was released by the MOF in 2000. The *Accounting System for Business Enterprises* applies to all types of medium and large companies except for listed companies and financial and insurance companies. With a growing number of companies voluntarily adopting the CAS framework, the *Accounting System for Business Enterprises* is becoming less common even if it is China-specific and easy to implement.

For social organizations, foundations, non-profit private schools, medical institutions, temples, Taoist temples, Mosques, churches, and other social service agencies, their accounting is regulated by the *Accounting System for Non-governmental Non-profit Organizations* (the "Accounting System for NGOs"), which was released by the MOF in 2004. A representative office established by an overseas NGO falls into this category. Different from CAS or the *Accounting System for Business Enterprises*, the *Accounting System for NGOs* imposes specific requirements on the accounting treatments of various kinds of asset donations and labor donations, the entrusted agency business where the NGO plays an intermediate role of handing over an asset to a designated beneficiary, the division of restricted and unrestricted net assets, the classification of cost of business activities, and the additional disclosure requirements on the explanatory notes on the financial situation. With more NGOs seeking to have an establishment in China, this standard has drawn more attention in recent years.

To be noted, though closely related to each other, there are discrepancies between CAS and tax laws, which are referred to as book-tax difference. To put it simply, book-tax difference means

“To be noted, though closely related to each other, there are discrepancies between CAS and tax laws, which are referred to as book-tax difference.”

that for the same transaction, the tax treatment and timing of recognition as stipulated by the tax laws are different from the accounting treatment as stipulated by the accounting standards. Such differences mostly come from the different goals served by the accounting standards and tax laws. While the purpose of accounting is to accurately and truly reflect the financial situation of an enterprise, the tax laws mainly ensure the tax revenue of the jurisdiction. Thus, the two regulatory systems differ in accounting elements and measurement principles. For the sake of tax compliance, businesses are suggested to pay attention to the book-tax differences and deal with tax in an effective manner.

Besides, although CAS has substantially converged with IFRS, there are additional considerations due to the special circumstances in China. This leads to accounting treatments that are different from those derived from the principles and description in IFRS. For foreign entities that report under IFRS and consolidate their Chinese subsidiaries that report under CAS Standards, the information from the Chinese subsidiary needs to be carefully translated, mapped, and converted to fit into the overseas parent company's accounting books and policies. Knowing the differences between the two is a prerequisite for being able to do so.

RMB is the base currency for ledgers and financial reports. For enterprises using currencies other than RMB in their business transactions, foreign currencies can be used as the bookkeeping base currency; however, financial reports are required to be shown in RMB. Furthermore, accounting records must be maintained in Chinese. FIEs can choose to use only Chinese or a combination of Chinese and a foreign language.

Enterprises in China should adopt the accrual basis of accounting in performing recognition, measurement, and reporting for accounting purposes. FIEs, including their legally responsible persons, must take full responsibility for the truthfulness, legitimacy, and completeness of financial statements. These statements will be used for computing the FIE's taxable and distributable profit.

Books and records have to be retained for at least 30 years under Chinese law.



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Guide to Accounting and Audit in China 2026

November 2025

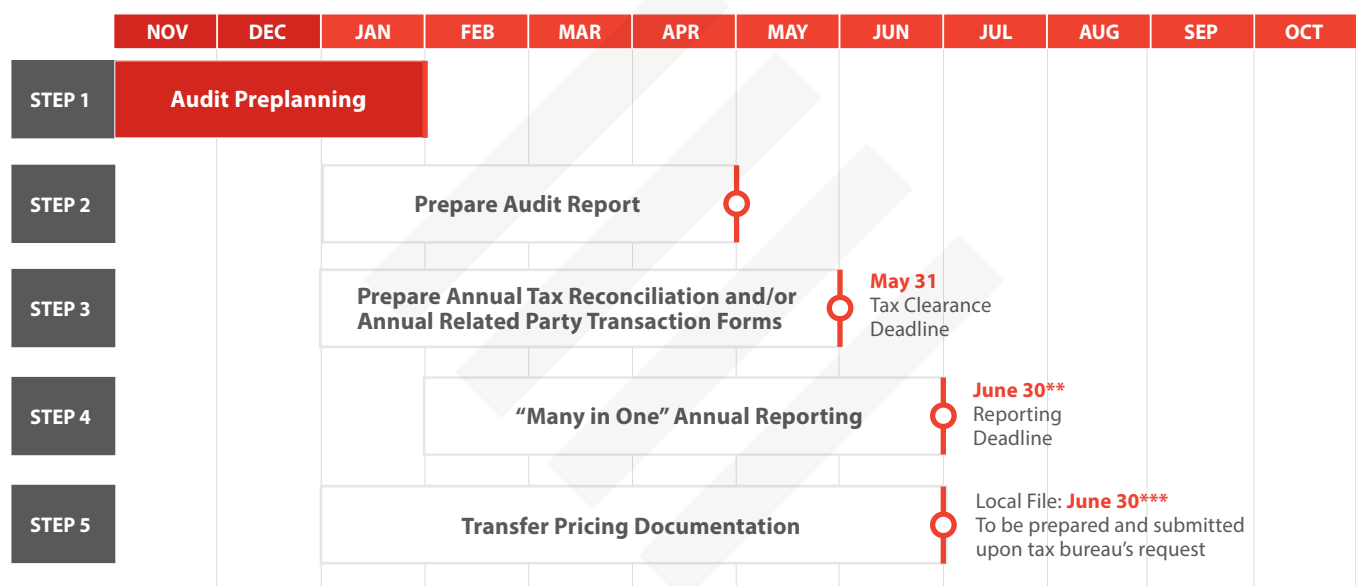
With businesses operating in a growing volatile, unexpected, complex, and ambiguous (VUCA) world, financial health and compliance has become more important than ever. More attention should thus be given to the audit and compliance procedures to reveal unexpected irregularities or suboptimal business practices, discover eligibility for tax incentives that had not previously been captured, as well as maximize efficiency within the organization.

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Annual compliance

For FIEs, regardless of wholly foreign-owned enterprises (WFOE) or joint ventures (JV), the annual compliance requirements start after the end of the fiscal year (December 31 as China follows the calendar year) and usually takes place until the end of June.

Annual Compliance Timeline*



*Subject to regional variation
 **A postponement of the deadline might happen. Please refer to the official notice posted by the authority in charge.
 ***Applicable to taxpayers whose annual related party transactions meet specific thresholds.

Step 1: Conduct audit preplanning (preliminary audit)

Every year in November or December, in November to December, companies are generally advised to start the audit preplanning (or referred to as preliminary audit) process, to plan the audit, spot the potential issues, and leave enough time for companies to make self-corrections.

Auditors will also make audit plans and communicate the significant audit matters with the company in advance, which will help companies to prepare and improve the audit efficiency.

Step 2: Prepare an annual audit report

Though the preliminary audit can start as early as November or December, the annual audit report must be prepared after the end of the fiscal year to include data from the past whole



year. And to proceed with the annual tax filing in May, the audit report should be completed before the end of April.

The annual audit report for FIEs generally consists of a balance sheet, an income statement, a cash flow statement, a statement of change in equity, and a supplementary statement of financial indicators. To ensure that FIEs meet Chinese financial and accounting standards, the annual audit report should be conducted by qualified accounting firms and signed by two Certified Public Accountants (CPAs) registered in China.

Despite a requirement by the *Company Law*, in some cities, companies may not be required to submit the annual audit report to the local tax bureau. Rather, they may only need to disclose whether they have done annual audit during annual reporting. Even so, companies are not suggested to take the chance. They are still advised to conduct their audit on a yearly basis for the reasons we explained in the first article.

In the case where an annual report is required, the requirements for the report may vary by region. For instance, in Shanghai, companies must include a taxable income adjustment sheet in the audit report, which is not a necessary supplement in Hangzhou, Beijing, or Shenzhen. Companies should stick to the local formalities.

Step 3: Conduct CIT reconciliation

The next step following the audit report is to conduct annual CIT reconciliation, which is also called annual CIT filing, before May 31 every year.

Although the STA oversees all kinds of tax, only CIT requires annual reconciliation to the tax bureau at company level.

In China, CIT is paid on a monthly or quarterly basis in accordance with the figures shown in the accounting books of the company – companies are required to file CIT returns within 15 days from the end of the month or quarter. However, due to discrepancies between China's accounting standards and tax laws, the actual CIT taxable income is usually different from the total profits shown in the accounting books.

As such, the STA requires companies to conduct annual CIT reconciliation within five months from the previous year's year end to determine if all tax liabilities have been met, and whether the company needs to pay supplementary tax or apply for a tax reimbursement.

Generally, the Annual CIT Reconciliation Report must include adjustment sheets to bridge the discrepancies between tax laws and accounting standards among other documents. FIEs that conduct transactions with related parties should prepare an Annual Affiliated Transaction Report on transfer pricing issues as a supplementary document to the Annual CIT Reconciliation Report.



Moreover, FIEs in certain regions might be required to prepare another separate CIT audit report by meeting certain conditions, which also vary from city to city.

The CPA firm that prepares the financial audit report usually also has Certified Tax Agents (CTAs) to prepare audit report for CIT. In the case that the CPA firm does not have CTA qualification, companies must hire another CTA firm to do the report. The CTA firm usually requests an annual (financial) audit report as reference for CIT reconciliation.

In the current trend of digitalization and business reform, annual CIT reconciliation can be conducted through online channels, under which companies can conveniently submit relevant information in the appointed system. However, if companies cannot make online CIT reconciliation due to certain circumstances, they can still go to the tax bureau in person to submit relevant materials as required.

The deadline for conducting annual CIT reconciliation is May 31 every year, but the investigation of the tax compliance could last to the end of the year, and companies should be prepared to provide supporting documents upon demand from the tax bureau. Besides, where companies are unable to conduct CIT reconciliation within the stipulated deadline due to a force majeure event, they may apply for an extension. But they must submit a report to the tax bureau immediately upon cessation of the force majeure event. The tax bureaus shall investigate the facts and approve accordingly.

Every year around March, depending on the location, the local tax bureau will issue annual guidance on CIT reconciliation. FIEs are suggested to keep an eye on the guidance for any potential changes regarding the requirements and procedures.

All companies engaging in production and operation, including pilot production and operation, are required to go through annual CIT reconciliation, regardless of whether or not the company is under a tax deduction period, and whether or not the company makes profit. For companies maintaining branch offices in multiple locations and required to pay tax on a consolidated basis, there are special rules and requirements regarding CIT reconciliation procedures. Companies should pay special attention to the matter if they fall into this scope.

Step 4: “Many-in-one” annual reporting

The third step of annual compliance is to conduct annual reporting to multiple government bureaus before June 30 every year, to ensure that companies are compliant and that the information related to each department is updated.

Starting from 2020, the annual reporting to multiple governments can be done by submitting

all relevant information at once through the National Credit Information Publicity system (www.gsxt.gov.cn). This is the so called “many-in-one” reporting.

Companies are no longer required to separately report to the local State Administration of Market Regulation (SAMR, which previously was called Administration of Industry and Commerce or AIC), the commerce bureau, the finance bureau, the tax bureau, the statistical bureau, and the foreign exchange bureau. The annual report submitted should cover at least the following information:

- Basic information of the enterprise, including the contact information, the existence status of the enterprise, the business scope, the licensing situation, the staffing and salary information, the social insurance contributions, the IP situation, etc.
- Investor profile, including information regarding the subscribed and paid in amount, time, ways of contribution, the actual controller of the investor, etc.
- The name and URL of the website of the enterprise and of its online shops.
- Equity change information of the equity transfer by the shareholders of a limited liability company.
- Information relating to any investment by the enterprise to establish companies or purchase equity rights.
- The balance sheet information of the enterprises, including total assets, total liabilities, total owner's equity, etc.
- Warranties and guarantees provided for other entities.
- Information regarding the operation of the enterprise, including total imports and exports, total revenue, income from the main business, operational cost and expenses, R&D expenses, total tax payment, gross profit, net profit, profit distribution, etc.
- Information regarding the credit and debt.
- Tax breaks information if the enterprise enjoys preferential treatment for importing equipment.
- Customs relevant information if the enterprise is subject to the administration of the customs.

Part of the information will be synced from the statistics maintained by other government bureaus, such as the social security bureau and tax bureau, automatically. Enterprises are required to prepare and submit other information online during the period between January 1 and June 30.

Step 5: Prepare and submit transfer pricing documentation

In addition to filing the related party transaction forms during the annual CIT reconciliation, enterprises exceeding relevant transaction threshold (except those that are covered by an advance pricing agreement or that only transact with domestic related parties) should prepare and maintain a contemporaneous transfer pricing documentation before the stipulated deadlines.

Under the current transfer pricing regulation, a three-tiered contemporaneous documentation framework - master file, local file, and special file - is implemented in China. For easier



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CHINA BRIEFING

Additional Compliance After Completing China's

Annual CIT Filing

*China Briefing Article
May 27, 2025*

Following the deadline for China's annual corporate income tax (CIT) filing, there are certain compliance points that businesses should still pay attention to. In this article, we explain the importance of retaining supporting documents and collecting and preserving relevant documentation for asset loss deductions to enjoy continued access to tax incentives.

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understanding, we summarize the three-tiered framework of contemporaneous documentation as below.

Contemporaneous Documentation in China		
	Scope of enterprises	Deadline
Master file	- Enterprises that make cross-border related party transactions during the year, and the ultimate holding company that consolidates the enterprise's financial statements has prepared the master file; - Enterprises with annual related party transactions that amount to RMB 1 billion (US\$157 million) and above.	Within 12 months of the end of the fiscal year for the group's ultimate holding company
Local file	- Enterprises with annual related party transactions for transferring the ownership of tangible assets that exceed RMB 200 million (US\$314 million); - Enterprises with annual related party transaction for the transfer of financial assets exceeding RMB 100 million (US\$15.7 million); - Enterprises with annual related party transaction for the transfer of ownership of intangible assets that exceed RMB 100 million (US\$15.7 million); - Enterprises with other types of related-party transactions that exceed RMB 40 million (US\$6.3 million) in total; - Single function companies that incurred a loss should prepare the local file regardless of the annual related-party transaction amount, including both domestic and cross-border transactions.	Before June 30 of the year that follows the related party transaction
Special file	- Enterprises entering cost sharing arrangements with related parties; - Enterprises that need to state whether arm's length principle is complied with due to related party debt equity ratio exceeding the standards.	Before June 30 of the year that follows the related party transaction

Consequences of failing to follow annual compliance requirements for FIEs

If the enterprise fails to submit the annual reporting information on time, it will be put into the *Catalogue of Enterprises with Irregular Operations (Irregular Operations Catalogue)*, which is open to the public.

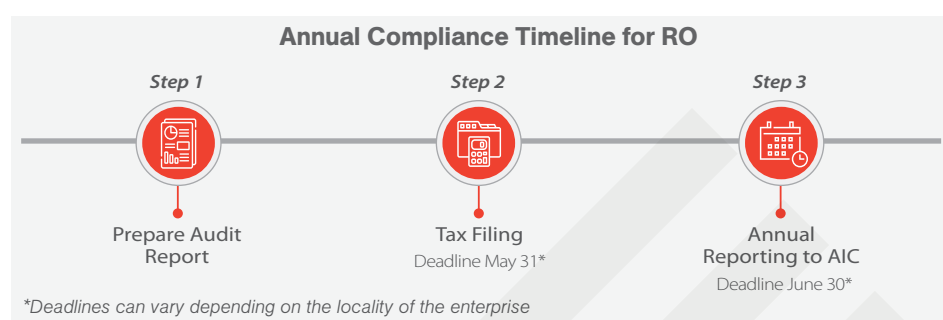
Besides, the enterprise will also be put into the *Irregular Operations Catalogue* if fraudulent information or serious concealment are discovered by authorities in the random check following the annual reporting.

If the enterprise is listed in this catalogue for three years in a row, there will be more serious consequences – the enterprise will be put into the *Catalogue of Enterprises with Illegal and Dishonest Behaviors*, which serves as a black list for future operations and investments.

The legal representative and the general manager of the blacklisted enterprise will be banned from taking the legal representative or general manager role in other enterprises for three years, and the blacklisted enterprise will be at a disadvantageous position in bidding, government procurement, licensing application, obtaining land, as well as making new investment in the future.

FIEs are suggested to pay attention to the deadlines and requirements, or make timely correction where incompliance happen, to avoid serious consequences.

For ROs, annual compliance procedures are simpler. They also need to prepare a statutory audit report and a tax reconciliation report, and then report to AMR between March 1 and June 30 every year. In certain cities, RO is also required to submit an existence certificate of headquarter during the annual compliance process.



Failing to submit the annual report on time may lead to additional penalties, ranging from RMB 10,000 to RMB 30,000. An RMB 20,000 to RMB 200,000 penalty might be given if the report includes fraudulent information. Failing to make corrections as required or fraud could lead to license revocation.

Tips on managing annual compliance requirements

Tip 1: Paying attention to the procedural changes and corresponding requirements.

While the essential steps remain similar, in the context of China's business reform and opening up, the detailed procedures have been subject to frequent changes in recent years. Companies are suggested to pay special attention to the annual compliance updates, study the new requirements, and make necessary preparations to stay compliant.

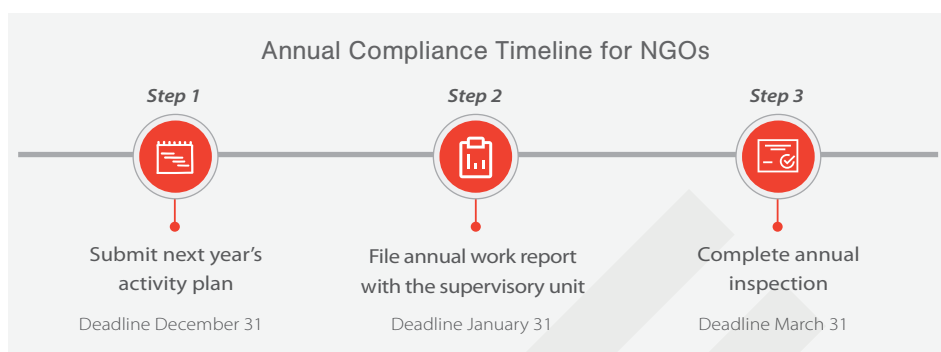
Tip 2: Paying attention to the local variations

The detailed procedures and requirements of each step may vary from one place to another. It is not always right to assume the company is compliant by solely referring to the national laws and regulations.

Tip 3: Using qualified third-party services

It is not uncommon to see companies getting penalized for unnecessary mistakes or negligence, with business credit being affected. Such companies are suggested to use professional third-party service firms rather than managing the matter internally.

For NGOs, the annual reporting process is highly structured and time-sensitive, and differs significantly from the requirements applicable to ROs or WFOEs.



Step 1: Submit next year's activity plan (by December 31)

By December 31, NGOs must submit their activity plan for the upcoming year to their professional supervisory unit. This plan should include details of project implementation and funding arrangements. Once approved, the supervisory unit must file the plan with the registration authority within 10 days. If adjustments to the plan become necessary during the year, NGOs must promptly report these changes for record filing.

Step 2: File annual work report (by January 31)

By January 31, NGOs are required to submit their annual work report to the supervisory unit through the designated online system. This report typically includes basic organizational information, changes in registration details, personnel information, and public welfare activities conducted during the year. The supervisory unit will review and provide its opinion before the next step.

Step 3: Complete annual inspection (by March 31)

By March 31, NGOs must submit the reviewed annual work report to the registration authority (usually the Public Security Bureau) for annual inspection. The report must include financial statements audited, details of activities carried out, and any changes in personnel or organizational structure. Additionally, NGOs are required to publish their annual work report on the registration authority's official website to ensure transparency.

In addition to submitting the annual work report, foreign NGOs in China must prepare a comprehensive financial accounting report that aligns with their approved activity plan and supports the disclosures made in the annual inspection. This report serves as a critical component of compliance, ensuring transparency and consistency between financial data and operational activities.

Due diligence

Broadly speaking, due diligence is a thorough review of a company so as to uncover any fraud, non-compliance, or other issues posing a risk to potential partners. Due diligence procedures, which can vary widely based on the intended business transaction and industry of the companies involved, are often split into legal, financial and operational due diligence. However, it can also include market, reputational and cultural considerations. A due diligence checklist in China is generally quite similar to those used elsewhere, likely including a review of:

- Legal documents for company establishment and any additional government approvals and licenses;
- Financial documents, including annual audits, tax returns, current financial statements, and loans;
- Documentation for real estate and land use rights (in China, land is owned by the state; an individual can merely purchase land use rights);
- Documentation for intellectual property and hard assets;
- Major contracts, distribution records, etc.;
- Litigation history and outstanding litigation (if any); and
- HR administration documents.

One of the key differentiating aspects of due diligence in China is the variety of issues commonly discovered in accounting books, from a company completely misrepresenting its financial situation to minor accounting errors that may come from misguided actions to help the company (i.e. by avoiding tax) or lack of knowledge. Some very common points to pay attention to in financial due diligence investigations in China include the following issues:

- Two or more sets of financial accounts – many companies keep two or more sets of financial accounts so as to avoid tax, but this practice can also be used to cover up inappropriate financial behavior.
- Revenue received “off the books” – underreporting of accounts receivable is often used to hide sales and reduce taxable income.
- Employees paid “off the books” – employees are sometimes paid “off the books” so as to increase expenses and avoid paying taxes on labor salaries. This can result in high liabilities related to IIT and social security.
- Phantom assets and contracts – the assets list on the books are often an overstatement or understatement of assets actually held. Assets are sometimes “mixed” with those of shareholders. Depending on the seriousness of infractions discovered in the course of an investigation (if any), it may be necessary to reevaluate one’s dealings with the subject company.



IVY GU

Senior Manager
Audit and Corporate
Accounting Services
Shanghai Office

“Performing similar due diligence on other third parties, such as prospective distributors or joint venture partners, is advisable for doing business in China.”

Tax health check and internal control review

In recent years, several developments have converged to raise the stakes for tax compliance in China: intensifying fiscal pressure, enhanced enforcement capabilities, the nationwide expansion of tax digitalization, and the rise of taxpayer credit systems. These changes are reshaping how foreign businesses must view and manage their tax obligations. Under such circumstances, the concept of “tax health” is gaining strategic importance. Maintaining good tax health means more than avoiding penalties or passing audits. It reflects a company’s ability to operate with transparency, access government support, and reduce financial and reputational risk.

Nevertheless, tax health is not achieved through a single compliance task – it requires continuous attention, strategic planning, and cross-functional coordination:

- Strengthen internal tax governance
- Leverage digital tools to enhance compliance and control
- Maximize preferential tax policies – with discipline
- Conduct regular tax health self-assessments
- Proactively build credibility with local tax authorities

Among others, internal tax health reviews are an effective tool for identifying hidden exposures, preventing costly errors, and improving readiness for tax audits. A well-designed tax health assessment should cover all high-risk and high-value areas of a company’s tax operations, including tax filing and reporting processes, VAT compliance and fapiao management, transfer pricing, cross-border payments, and incentive eligibility. Ideally, tax health reviews should be conducted annually. For more complex operations or during periods of significant business change, such as restructuring, expansion, or changes in personnel, mid-year or ad hoc reviews may also be warranted.

Complementing this, an internal control review goes beyond tax compliance. It evaluates whether the company’s control systems function as intended to mitigate operational risks, including fraud.



HANNAH FENG

Partner
Beijing Office

“ We typically recommend one of two types of assurance to our clients: a ‘health check’ or a ‘full scope audit.’ In a health check, we run through a general internal control checklist and try to gauge whether an organization is under control risk. ”

Common Types of Fraud in China-Based Enterprises

Department	Examples of fraud
Payroll	- Discrepancy between contract salary and payroll payments - Deliberate over-accrual or unauthorized use of welfare benefits - Falsification of expense claims - Ghost employees (non-existent employees whose salary is diverted to another account)
Supply Chain	- Purchasing overpriced raw materials due to inappropriate agreements with suppliers - Improper disposal of scrap - Fake VAT invoices - Poor inventory control
Sales	- Sale of goods at or below cost due to inappropriate agreements with purchasers - Payment of unauthorized sales commissions to employees or associates - Lack of competitive bidding process

Internal Control Review Process-Full Set



Transfer pricing

Transfer pricing concerns the prices charged between associated enterprises established in different tax jurisdictions for their intercompany transactions. Specifically, any Chinese taxpayer engaged in related party transactions with other group entities is required to demonstrate that such transactions are conducted in a manner consistent with the “arm’s length standard” – under which taxpayers should be able to demonstrate that they transact with related parties in a similar manner, under comparable conditions as they would with third parties.

In China, the relationship threshold for transfer pricing rules to apply between parties is low compared to other countries. All transactions between the HQ and its China-side entity should be conducted based on the arm’s length principle, as the two are related parties according to Chinese tax laws. From a transfer pricing perspective, taxpayers operating in China have to be aware of their tax filing obligations. This consists of two parts: (a) ensuring that related party transactions are appropriately disclosed in the tax return; and (b) preparing and maintaining detailed transfer pricing documentation, if required.

When filing annual tax returns, all resident enterprises under the scheme of tax assessment by accounts inspection and non-resident enterprises establishing organizations or premises in China, should submit the Enterprise Annual Reporting Forms for Related Party Transactions of the People’s Republic of China before May 31 of the following year (the same deadline as annual tax returns).

In addition to filing the Related Party Transaction Forms, enterprises exceeding relevant transaction threshold (except those that are covered by an advance pricing agreement or that only transact with domestic related parties) should prepare and maintain a contemporaneous transfer pricing documentation, prepared in line with Chinese transfer pricing regulations. Although this report need not be submitted as part of the tax return, it must be provided to the local tax bureau within 30 days upon request. Note that the tax authorities can make special tax adjustments and levy additional tax and penalties to include years when documentation may not have been strictly required. The limitation period is up to 10 years. Correlative relief under a double tax treaty cannot be claimed for any interest or penalties.



ABBY YANG

Senior Manager
Tax & Transfer Pricing
Dalian Office

“If done properly, transfer pricing can save a foreign investor a substantial amount on their tax bill. However, careful planning is advised: transfer pricing transactions are under special scrutiny. In case of non-compliance, the back taxes and penalties can be severe.”



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Dezan Shira & Associates provide tax consulting for foreign companies in China. For more information, please contact us at tax@dezshira.com

Foreign exchange controls

China maintains a strict capital control regime that regulates the inflow and outflow of foreign currency. The system distinguishes between current account and capital account transactions, and foreign investors must open separate bank accounts for each. The SAFE and its local branches oversee these transactions.

SAFE classifies foreign currency activities into two categories:

- **Current account transactions** – including the import and export of goods and services, interest or dividend earnings from portfolio securities, and routine transfers. These transactions can generally be processed directly through banks.
- **Capital account transactions** – including foreign direct investment (such as changes to a company's registered capital), the purchase or sale of equity or debt securities, and trade credit or loans. These typically require SAFE approval.

At present, FIEs are permitted to convert up to 100 percent of the foreign currency in their capital accounts into RMB at their discretion. However, SAFE retains the authority to adjust the allowable conversion ratio based on China's balance of payments conditions.

Income that may be credited to the capital account includes:

- Foreign exchange capital remitted from overseas by foreign investors;
- Foreign exchange capital used as security deposits for overseas transfers;
- RMB funds returned after lawful transfers or due to revoked transactions; and
- Interest income received (subject to approval by a SAFE-authorized bank).

Uses that remain strictly prohibited as grounds for converting foreign exchange into RMB include:

- Expenditures beyond the company's business scope or contrary to laws and regulations, directly or indirectly;
- Investment in securities or financial products not guaranteed by banks, directly or indirectly (unless otherwise permitted by law);
- RMB entrusted loans to non-related enterprises (unless included in the company's approved business scope); and
- Construction or purchase of real estate not intended for the company's own use (unless real estate is part of its business operations).



Human Resources and Payroll

- ◆ How do I hire employees?
- ◆ How do I manage foreign employees?
- ◆ What obligations do I have as an employer?
- ◆ Termination

How do I hire employees?

In China, the company can hire employees in the following three ways:

- Direct hiring;
- Dispatching; and
- Outsourcing.

Direct hiring

Except for ROs, FIEs can hire employees directly by themselves. The Chinese labor law requires employers to sign a written contract with their employees within one month, starting from the employee's first day of work at the company. Failing to do so results in double salary compensation for each month without a contract, and a non-fixed term contract by default after one year without a contract. One exception to this rule is part-time work, where an oral agreement is considered sufficient.

Depending on how the term is defined, labor contract could be divided into three groups:

- Fixed-term contract;
- Non-fixed term contract; and
- Job contract.

Fixed-term contract

The fixed-term contract creates an employer-employee relationship for a fixed length of time, and can be used for part-time or full-time work. More often than not, a fixed-term contract can be renewed only once, after which it will be necessary to give the employee a non-fixed term contract when renewing for a second time.

Certain clauses may be inadmissible according to Chinese law, while others are mandatory, including the employer and employee information, the term of the contract, the job description, the salary details, etc. Depending on the specific situation, a number of additional terms to the labor contract are recommended, including:

- Probation period;
- Non-competition clauses;
- Confidentiality clauses;
- Allowances and benefits (particularly for foreign employees); and
- Reference to the company rulebook or staff manual.



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Guide to HR Compliance
and Best Practices in China



**Guide to HR Compliance
and Best Practices in China**
June 2024

Within China's changing business landscape, understanding effective recruitment and management practices, along with your legal responsibilities as an employer, is imperative. The Guide to HR Compliance and Best Practices in China introduces the fundamentals of HR management and labor compliance within the Chinese market.

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Maximum Probation Period by Contract Term	
Contract term	Maximum probation period
Less than 3 months	None
3 months to 1 year	1 month
1 to 3 years	2 months
3+ years or non-fixed term contract	6 months

Note: An employer cannot make an employee take a new probation period, for example, after promotion or when the company has been merged or acquired by an investor.

For part-time workers:

- The employee may not work for more than four hours per day, or 24 hours per week;
- No probation period is allowed, and either the employer or employee may end the agreement at any time;
- The employee is not entitled to severance compensation;
- The employee must be paid at least every 15 days; and
- Written contract is not mandatory for part-time employees.

Non-fixed term contract

Non-fixed term contract refers to a norm of labor contract between employer and employee that has no fixed term. The non-fixed term contract effectively guarantees the employee job security until retirement age. As there is no longer a contractual limit to the length of employment, companies will be unable to dismiss the employee upon the expiry of the labor contract. This means employers can only terminate the employee by mutual agreement or based on valid grounds.

Job contract

A job contract is defined by the task or project the employee is to work on, not the length of time. This type of contract allows a company to hire a person to implement a specific project. Once the project is completed, the employment relationship comes to an end. At that stage, the company needs to make a severance payment to the employee accordingly.

Job contracts are sometimes used for seasonal jobs where the scope of work can be defined very clearly. However, in most cases, defining the scope of work proves to be a challenge. It is often hard to adequately define the completion of a project. The relevant legal framework offers no guidance on what to do when a project is left uncompleted for whatever reason, or how employees should be compensated in such a case.



ADAM LIVERMORE

Partner
Dalian Office

“Most people are aware of the importance of employment contracts in China, but many foreign investors ignore the value of the employee handbook and confidentiality agreement.”

This lack of clarity makes job contracts relatively more prone to disputes and even litigation. In addition, the employer is not allowed to set a probation period for a job contract. For these reasons, most employers avoid this type of arrangement.

Dispatch

Labor dispatch is an important form of supplementary employment in China. Unlike direct hiring, labor dispatch has a triangular form of employment relations, in which a host company hires dispatch workers from a dispatch agency. While dispatched workers work for and are supervised by the host company, the dispatch agency, which usually have considerable experience and knowledge of hiring local workers, is the de facto legal entity that is responsible for the administrative management of the employees.

Compared to direct hiring, labor dispatch is particularly attractive where:

- the business is not allowed to hire employee directly, either because the business is in the process of setup and hasn't got its business license, or because the business is structured as a RO, which is legally required to recruit through dispatch agencies;
- business priority is given to revenue-generating activities over any other concerns, especially when the business is small-size and at its very early stage; or
- there is an inconsistent work flow for businesses in seasonal and project-based industries.

Despite the popularity of the labor dispatch among FIEs, China has been limiting companies from taking advantage of labor dispatch, to protect dispatched workers.

According to relevant laws and regulations, labor dispatch arrangements are only applicable for the following three types of positions:

- Temporary position: A position with duration of no more than six months;
- Auxiliary position: A position that provides auxiliary services to the main or core business of the employer; and
- Replaceable position: A position that can be performed by a dispatched employee in place of a permanent employee during the period when such an employee is away from work for study, vacation, or other reasons.

The number of total dispatched employees used by an employer should not exceed 10 percent of its total number of employees, including regular employees and dispatched employees. ROs of foreign enterprises, however, are not subject to this restriction on dispatched employees' positions.

In addition, there must be a contract between the dispatching company and the dispatched employee, the dispatching company and the FIE, as well as the dispatched employee and the FIE, respectively. The contract between the dispatching company and the dispatched employee should have a fixed term of at least two years.



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From Recruitment to Retention: Talent Trends and Strategies in China March 2025

In today's rapidly changing economic landscape, recruiting, engaging, and retaining top talent in China has become both an art and a science—critical to sustaining a competitive advantage. In this issue of China Briefing Magazine, we examine how demographic shifts, technological advancements, and regulatory reforms are reshaping employment practices across the country and offer localized strategies for attracting and retaining talent in this dynamic market.

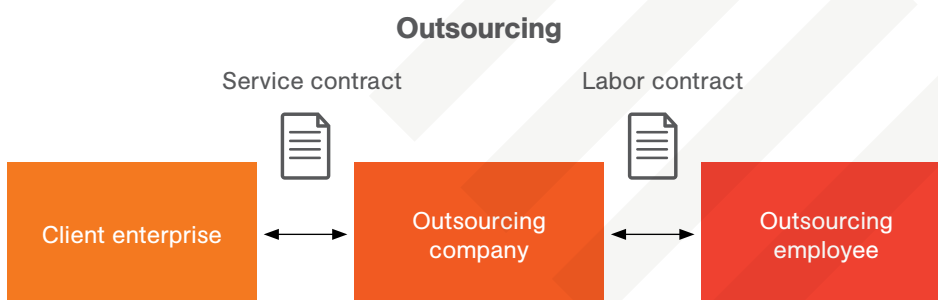
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Outsourcing

Outsourcing is another form of supplementary employment in China. It's traditionally applied to tasks that require specialist skills, a high degree of confidentiality, or those that have a clear scope but incur major consequences if incorrectly implemented, such as IT development, accounting, tax filing, HR administration, and payroll processing.

With labor dispatch facing increasing scrutiny, many companies tend to use outsourcing as a substitute to dispatching, as another alternative to avoid directly hiring employees.

Similar to labor dispatch, outsourcing can help businesses in China circumvent tedious administrative processes and still match workforce needs. Under this model, the client enterprise has no direct employment relationship with the outsourcing employees.



The below points should be noted for outsourcing:

- Responsibility for the behavior of the outsourced employee is borne by the company contracted for the outsourcing;
- The role is often not a full-time one, and most of the work does not have to be completed on-site – working off-site improves the level of confidentiality;
- As the company does not need to hire a full-time internal resource for the role, outsourcing can often be a money-saving solution;
- The outsourcing company retains the right to use whichever resources it feels are best for each project, which ensures continuity in service provision; and
- Such tasks will often use special software licensed by the company contracted for the outsourcing – the company requesting the services does not need to pay for software licenses or development work.

Comparison between Dispatching and Outsourcing

	Labor dispatch	Outsourcing
Relationship	The company has a direct relationship with dispatched staff and can monitor their performance.	The company monitors the progress and outcome of the project rather than the individual staff members.
Fees	Payment is made monthly to the labor dispatch agency per individual dispatched worker.	Payment (outsourcing fees) is generally made based on the progress of the project.
Qualification rules	Dispatched staff must adhere to the company's qualification rules and standards.	Usually, the company does not have obligatory qualification rules to outsourced staff who provide service to them. However, the company has the right to replace any workers assigned by the outsourcing service provider.
Supervision	The company directly supervises the performance of dispatched staff.	The outsourcing service provider supervises the performance of assigned staff.
Regulation compliance	Dispatched staff shall abide by the rules and regulations of the company.	Outsourced staff are not required to abide by the rules and regulations of the company.
Assessment	The company assesses the performance of dispatched staff.	The company assesses the outcome of the project.



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How do I manage foreign employees?

Hiring foreign employees in China usually entails additional procedures, just like any other country. According to the revised *Administrative Regulations on the Employment of Foreigners in China* and the *Entry-Exit Regulation*, the due procedures for a company to hire foreign employees include:

- Applying for Notification Letter of Foreigner's Work Permit in China;
- Applying for Z-visa or R-visa;
- Applying for Foreigner's Work Permit; and
- Applying for resident permit.

Effective December 1, 2024, foreign nationals entering China will no longer be required to obtain a physical Foreigner's Work Permit. Instead, they can apply for an electronic social security card via a designated app, which will automatically integrate the relevant details from the Foreigner's Work Permit. The application processes for work visas remain unchanged.

Unified work permit system and tiered talents system

To legally work in China, the company must help its foreign employees to get the proper work permit. Under the unified work permit system, this entails two steps: one, apply for Notification Letter of Foreigner's Work Permit in China after they decided to hire the foreign employee; and two, apply for Foreigner's Work Permit for each foreign employee after they come to China with proper visa.

Together with the unified work permit system, a tiered talents classification system was also introduced to attract more high-level foreign talents. Under this system, foreign workers are classified into three tiers: highly qualified top talents (Tier A), professional talents in line with labor market demand (Tier B), and other foreign talents in line with labor market demand (Tier C).

The classification is based on the desirability and eligibility of the expats through a comprehensive evaluation system, which includes a point-based system, a catalogue for guiding foreigners working in China, a labor market test, as well as a quota administration system. Among others, applicants are assigned points based on their education background, salary level, age, past achievements, work experience and length, and Chinese language level. Candidates applying to work in less developed areas may receive additional points. The State Administration of Foreign Expert Affairs (SAFEA) has released the detailed scoring criteria and other specific standards to evaluate expats, which could be found in the online service platform of the Ministry of Science and Technology (<http://fuwu.most.gov.cn/>).

The three-tiered talents are subject to different administrations. Applicants placed in the Tier A are eligible for service through a "green channel", which offers paperless verification, expedited approval, and other facilitation measures. Tier A talents shall not be limited by their



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CHINA BRIEFING

Key Points in the Application of Chinese Labor Laws to Foreign Employees

China Briefing Article
December 26, 2023

Foreign employee management has become one of the top concerns for many companies. Hiring expatriates is very different from hiring domestic employees. In this article, we explain the "special features" that apply to foreign employees in labor relations management.

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age, education degree, or working experience. In contrast, applicants placed in Tier B are controlled according to the labor market demand, and applicants placed in Tier C are strictly limited by quotas and other relevant rules.

China's visa system

After obtaining the Notification Letter of Foreigner's Work Permit in China for the foreign nationals it intends to hire, the company need to make sure the expatriates entering into China with proper visa. Among the 13 types of visas stipulated in the *Entry-Exit Regulation*, both Z-visa and R-visa can be used as work visas, while the requirements for the latter are considerably higher than the former.

Z-visa is the most commonly used visa for employment. It is used by foreigners who are actually employed by a company that has been incorporated in China (either domestic or foreign invested), or who plan to give commercial performance in China.

R-visa is a relatively new type of visa, issued to high-level foreign personnel and those possessing skills that are in shortage of China. Under China's tiered talents system, R-visa is usually applicable to Tier A talents.

Besides these, another type of visa might be useful for doing business in China is M-visa, which is known as business visa. Although it cannot be used for employment purpose, it enables company to invite foreigners to China for commercial and trade activities.

Generally, there is no regulation explicitly stipulating the number of expats a single company can hire in China. In practice, however, local government agencies tend to refuse applications if they think the company unnecessarily hired too many foreign employees.

Based on the experience of Dezan Shira & Associates, when assessing the necessity of hiring foreigners, the authorities consider things like the applicant's business scope and size, registered capital, and internal structure, as well as the specific position in question. There are, however, no firm rules on the matter, and companies are instead reviewed on a case-by-case basis.

New K visa for young foreign talents

In 2025, China amended its Regulations on the Administration of the Entry and Exit of Foreigners, introduced a new K visa designed specifically for foreign young science and technology talent. The definition of “young science and technology talent” is quite specific:

- Graduates in STEM (science, technology, engineering, mathematics) fields from recognized universities or research institutions worldwide, holding at least a bachelor's degree; or
- Young professionals engaged in relevant education or research work at such institutions.

Compared with existing visa types for work or research, the K visa offers:

- **More flexibility:** No requirement for a Chinese employer or inviter at the application stage.
- **Convenience:** Potentially more generous terms for entry frequency, validity period, and duration of stay.
- **Breadth of permitted activities:** Holders can engage in education, research, cultural exchange, entrepreneurship, and business.

In practice, this makes it more appealing to fresh graduates, independent researchers, and entrepreneurs who might not yet have formal job offers in China but want to explore opportunities.

Resident permit

After the employee is granted a work visa and successfully enters China, the hiring company needs to help him or her to apply for a resident permit within 30 days of the entrance. Receipt of a resident permit signifies the completion of the administrative procedures for hiring foreign employees, allowing the employee to travel into and out of China as regularly as they require.

The term of validity of the residence certificate is determined in accordance with the validity of the Foreigner's Work Permit in China, which is usually up to one year. In some cities, such as Beijing and Shanghai, certain foreign employees can apply for five-year residence permits, subject to higher qualifications.



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CHINA BRIEFING

Temporary Residence Registration in China – A Guide for Foreign Residents and Visitors

*China Briefing Article
October 31, 2023*

Temporary residence registration is a mandatory process for all foreign nationals in China. Whether you are visiting or planning to reside in the country, it is essential to register with the local police within 24 hours of your arrival. In this article, we explain the requirements and processes for filing for the residence registration in China.

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Temporary residence registration

According to the *Exit and Entry Administration Law of the People's Republic of China*, all foreigners in China are required to register their place of residence or temporary accommodation with the local police within 24 hours of arrival at the address. This applies to all foreign nationals in China, as well as Hong Kong, Macao, and Taiwan residents, whether you are in China for a short-term visit, such as for tourism or business, or living in China long-term for work, study, or family. Failing to register in time may trigger a warning or even a fine up to RMB 2,000 (US\$274) in serious cases.

Renewal and deregistration of foreigner's work permit

The Foreigner's Work Permit in China is normally valid for one year. The validity period can be raised to two years for Tier B talents and five years for Tier A talents. It may not, however, exceed the validity of the employee's passport, the term on the company's business license, or the registration certificate of the employer. The Foreigner's Work Permit in China will also be subject to annual review.

Renewing the Foreigner's Work Permit in China is not as difficult or time-consuming as making the initial application. However, companies must be organized enough internally to know when each foreign employee's visa will expire. If the Foreigner's Work Permit in China is not renewed upon expiry, it will be deregistered automatically.

When the employment relationship between the employer and the foreign employee ends, the employer is bounded to deregister the Foreigner's Work Permit in China within 10 days of termination. And when the employer company no longer exists, the foreigner can apply to the local bureau in charge to deregister its Foreigner's Work Permit in China by themselves.

With the deregistration of the Foreigner's Work Permit in China, the resident permit shall be deregistered as well, and the foreigner need apply to the entry-exit bureau for a temporary visa that grants limited time of stay.



GLOBAL MOBILITY SERVICES

Dezan Shira & Associates provides optional support for expatriate staff to obtain visas, work permits, and other travel and relocation related services, to help companies to meet their changing international needs.

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What obligations do I have as an employer?

Minimum wages across China

A minimum wage is the lowest remuneration that employers can legally pay their employees. It is regarded as an important indicator considering it reveals the minimum labor cost level, serving as a bedrock for wage costs within a region.

As different parts of the country have very different living standards, China does not have a unified minimum wage level for the entire country. Instead, the task of setting minimum wages falls on the shoulders of local governments. Previously, provinces had to adjust their minimum wages at least once every two years. Since 2016, China started to give provinces more independence and flexibility in determining minimum wages.

Notably, minimum wage generally doesn't include overtime payment, allowance for special working environment, as well as different forms welfare. However, China's minimum wage standards do include the social insurance premiums and housing fund contributions paid by employees in most regions. In fact, it is possible that the employee's take-home pay is lower than the corresponding minimum wage standard in these regions. Only a few regions, such as Shanghai, clearly stipulate in their local rules that their local minimum wage standards exclude social insurance premiums and housing fund contributions.

Work hour system and overtime payment

In China, overtime is paid differently depending on the work hour system adopted by the employer, i.e., standard work hour system, comprehensive work hour system, and non-fixed work hour system. The latter two systems are considered 'special work hour systems', which engage special approval and compliance requirements.

Overtime payments are subject to the below overtime rates:

Overtime Payment under the Standard Work Hour System	
Time of work	Percentage of hourly salary*
Extra hours worked on weekdays	150%
Hours worked on weekends	200%
Hours worked on public holidays	300%

*Basic hourly salary is calculated by taking the monthly pay of the employee and dividing it by 174 (average number of working hours in the month).



DAVID NIU

Partner
Human Resources
Beijing Office

“ Outsourcing payroll processing allows for greater transparency, efficiency, accuracy, confidentiality, and continuity as well as cost savings and ensured compliance with all laws and regulations. ”

Rather than a unit of one week, the comprehensive work hour system adopts a set period (typically one month) as the base to calculate the employee's working hours. Although the distribution of hours worked during this period can be irregular, the average number of working hours per day and per week should roughly correspond to the levels set out in the standard work hour system. Overtime is applicable for hours worked above the standard set per cycle. However, no rest day is outlined under this system.

Overtime payments are subject to the below overtime rates:

Overtime Payment under the Comprehensive Work Hour System	
Time of work	Percentage of hourly salary
Extra hours worked outside of normal shift	150%
Extra hours worked on public holidays*	300%

**This higher rate applies even if the standard shift for the worker is scheduled on a public holiday.*

Lastly, the non-fixed work hour system is geared towards positions like senior management, salespeople, and employees in the transport, warehousing and railway sectors who generally do not receive overtime payments, as it is considered impractical to measure their time spent on working.

How to get approval for the special work hour system

Before implementing a special work hour system, be it comprehensive or non-fixed work hour system, the employer must apply to the local labor bureau for approval.

It usually takes around 20 working days for the labor bureau to examine and decide whether to grant an approval. Once approved, the company can implement the special work hour system for one to three years, as stipulated by the approval document issued.

To be noted, the requirements to be eligible for the special work hour system may vary from city to city. For example, Beijing allows senior management to undertake the non-fixed working hour system without the need for approval. Shanghai, on the other hand, requires permission prior to allowing any staff to engage in the non-fixed work hour system. In this case, we advise companies to contact the relevant labor bureau in charge for applying for the special work hour systems.

Social security

China's social insurance system consists of five different types of insurance – pension, medical, unemployment, work-related injury, and maternity insurances. These five insurances plus a housing fund scheme form China's social security system.

In China, whenever hiring new staff, employers need to register him or her with the local social insurance bureau and the housing fund bureau to initiate or reactivate the corresponding accounts. Further, although both employer and employee are obligated to make contributions, it is generally the employer's responsibility to correctly calculate and withhold the payments for both parties.

Meanwhile, employers are obliged to make timely payments for themselves and their employees. A late contribution can result in a fine, while failure to contribute may lead to onerous labor disputes. In case of severe and multiple violations, the company might be put on an HR "name and shame" list, which is not only embarrassing but also could bring barriers to future recruitment.

One thing to be noted is that employer's obligation to make adequate and timely contributions cannot be alleviated or exempted by reaching mutual agreement with employees. In practice, employers and employees (especially those whose gross salary is not high) may mutually agree not to contribute to the social security schemes or to make contributions on a smaller basis, to save labor costs and maximize employee's take-home payment. However, the court would consider such an agreement invalid in the case of a labor dispute between the employer and employee. The employer might be required to repay the social security evasion or pay extra severance payment to its employee in case of termination.

Foreign employees working in China have been required to participate in China's social insurance scheme starting from 2011. However, since social security is managed at regional level, a range of inconsistencies exists among cities. Moreover, foreign employees are eligible for social insurance exemptions if they come from countries that have social insurance exemption agreements with China. To date, China has signed social security agreements with 12 countries, but only 11 such agreements have been implemented, including Germany, South Korea, Denmark, Canada, Finland, Switzerland, the Netherlands, Spain, Luxembourg, Japan, and Serbia.

Expatriates generally cannot participate in the housing fund scheme. Nevertheless, some regions, such as Shenzhen and Tianjin, allow foreign employees to make contributions to the housing fund on a voluntary basis. This is designed as a preferential measure to attract talents rather than being a mandatory obligation.



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China Briefing Article
August 7, 2025

China's Judicial Interpretation II on Labor Disputes clarifies key legal standards for handling employment disputes in China. This article examines its legislative context, major changes, and why foreign-invested enterprises must proactively review their employment practices.

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China's Social Security System			
Category	Contribution*		Description
	Employer rates	Employee rates	
Pension insurance	Around 16%	Around 8%	Designed to provide necessary financial support to individuals after their retirement
Unemployment insurance	0.5%-1%	Around 0.5%	Designed to provide financial support to individuals who faultlessly lost their job within certain period
Medical insurance	5%-12%	Around 2%	In the event of illness/non-occupational injury, an employee can have part of the treatment cost covered by medical insurance
Work-related injury insurance**	0.5%-2%	-	Designed to cover the cost of treatment should an occupational injury or illness occur
Maternity insurance***	0.5%-1%	-	Designed to cover part of the female employee's medical expense of childbirth and their salary during the maternity leave
Housing fund	5%-12%****	5%-12%	Designed to ensure that workers save to purchase housing

* The amount of contribution in each category is calculated by utilizing the employee's payment base figure and multiplying it by different percentages required by each local government entity.

** Depending on what kind of work is being carried out by the employee

*** Maternity insurance has been merged into medical insurance in most cities. The contribution rate of the employer shall be the sum of their original contribution rates to the medical insurance and the maternity insurance. The contribution rate of the employee shall be their original contribution rate to the medical insurance, considering employees don't need to contribute to the maternity insurance.

**** In certain cities, employer and employee are allowed to contribute more than 12 percent.

Leave and vacations

Under Chinese labor laws and regulation, employers in China are obliged to provide corresponding paid leaves and vacations to qualified employees.

Statutory annual leave

Statutory annual leave in China is generally granted based on an employee's work tenure, as demonstrated in the below table:

Statutory Annual Leave	
Work tenure	Days leave
Less than one year	No leave
1-10 years	5
10-20 years	10
Over 20 years	15

To be noted, work tenure is not limited to the length of time that an employee has worked for their current employer, but rather refers to their cumulative work years with all previous and current employers. Also, paid annual leave does not include the country's statutory rest days, public holidays, and other additional holidays (e.g., maternity leave and paternity leave).

In the case where an employee has not taken all of their paid annual leave in that year, and does not agree to carry over the untaken leave to the next year, the employer must compensate this employee with 200 percent of the employee's average daily wage for each day of unused annual leave, in addition to their regular daily wage.

National holidays

Besides statutory annual leave, employees are entitled to paid leave for the below national holidays:

- New Year – 1 day;
- Spring Festival (Chinese New Year) – 4 days;
- Tomb Sweeping Day – 1 day;
- Labor Day – 2 days;
- Dragon Boat Festival – 1 day;
- Mid-Autumn Festival – 1 day;
- National Day – 3 days.

Employees are entitled to triple pay for working on national holidays.



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CHINA BRIEFING

China Public Holiday 2026 Schedule

*China Briefing Article
November 4, 2026*

In 2026, all employees in China will be entitled to a total of 13 days off, when adjusted for weekends and additional weekend work days. According to the official notice, the Spring Festival holiday will last nine days, making it the longest in history, while the Labor Day holiday will last five days and the National Day holiday seven days.

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Child-related leaves

Child-related leaves in China include prenatal check-up leave, maternity leave, breast-feeding leave for female employees, paternity leave for male employees whose wife has given birth, and childcare leave for those whose child is under a certain age. The exact number of days of child-related leaves vary from one province to another. By law, employees are entitled to be paid as normal for these leaves, or even higher in the case of maternity leave.

Parental care leave

The parental care leave, also known as “only child parental care leave”, primarily applies to families with only one child. When a parent is hospitalized and needs care, the child can take paid leave. This leave is not a nationwide policy but is instead determined by each region based on local conditions. Therefore, the number of days and eligibility criteria can vary between regions. Some regions may offer a minimum of 10 days annually, while others may provide 15, 20, or more days.

Sick leave

Employers usually have considerable autonomy in deciding how many paid sick days it would like to give employees in a year. However, there are stricter rules when it comes to the recuperation period, a specific type of sick leave in which the employer cannot terminate the employee suffering from non-occupational sickness or injury and is responsible for paying a proportion of salary by law. The regulations on recuperation period are made at the local level, which vary from one province to another.

Marriage leave

In China, newly-wed employees are entitled to marriage leave – extra days of paid leave. Although there is no clear law on how many days of marriage leave an employee can get on the national level, every region in China offers employees who get married at least three days of leave, by referring to the marriage leave requirements to the state-owned enterprises. Many regions in China tend to offer extra marriage leave, with Gansu and Shanxi – which offer 30 days – the most generous.

Termination

From a legal perspective, terminating employees in China can be more difficult than expected, especially under the comparatively stringent regulations on terminating employment contracts since 2008. Employers should follow the below steps to ensure full compliance:

- **Step 1:** Determine whether the termination is an early termination or not. If the employer chooses to terminate the employer prior to the expiration of the fixed-term contract, this is considered “early termination” and certain additional requirements apply.
- **Step 2:** In case of early termination, the employer should attempt to negotiate an agreement with the employee, including the termination date, severance payment, and any other necessary details. This is often the safer option even if there are grounds for unilateral termination.
- **Step 3:** If unable to come to a termination agreement, consider whether there are grounds to support immediate termination for extreme causes or 30-day notice termination for other causes, keeping in mind the statutory obstacles to such forms of termination.

If none of the above measures can be adopted, then the termination is likely to be considered an unlawful termination and additional severance payment might be required.

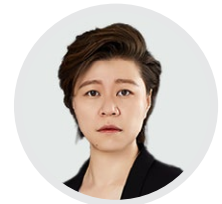
Severance payment

The formula of calculating the severance payment is:

SEVERANCE PAYMENT = AVERAGE MONTHLY SALARY x YEARS OF SERVICE

- For the average monthly salary: It is calculated as the employee's average monthly salary during the last 12 months preceding the termination. If the employee worked for less than 12 months, the average monthly salary shall be calculated according to the actual work time.
- Three-time restriction: Where the employee's average monthly salary is more than three times the average monthly salary in the location of employment, the latter will be used to calculate severance pay.
- For counting the years of service: For a working period that is less than six months, it shall be counted as half a year, and half a month's salary must be paid as severance payment. If a working period is over six months but less than one year, it shall be counted as one year, and one month's salary shall be paid as severance payment.
- Total amount restriction: For an employee whose average monthly salary is more than three times the average monthly salary in the location of employment, the severance is limited to a maximum of 12 month's average salary, even if they worked for a company for over 12 years.

The calculation method provided above is only the minimum amount an employer is required to pay by law. In practice, however, employers often pay a higher amount than the statutory minimum amount.



ALLAN XU

Partner
Dezan Shira & Associates
Shanghai Office

“Setting up a fair and watertight mechanism of internal company rules and disciplines could reduce the risk of potential labor disputes. Outsourcing these tasks can reward a company with significant time savings.”

Terminating Staff in China			
Type of termination	Admissible grounds	Type of employee	Severance payment
Mutual agreement	Agreed with employee	- Fixed-term - Non-fixed term	Yes (if the termination is put forward by the employer)
Immediate (unilaterally)	- Serious violation of company rules - Serious loss attributed to employee - Giving false information to employer - Criminal offense during employment - Employee takes up second job, harming the first employer - Employee doesn't meet the job requirement during probation	- Fixed-term - Non-fixed term	No
30 days' notice (unilaterally)	- Employee incompetent for position after training or job transfer - Employee unable to work after sickness/injury - Job cannot be performed due to fundamental change in objective circumstances	- Fixed-term - Non-fixed term	Yes
Not renewing contract	After one or two fixed-term contracts, differs per city	Fixed-term	Yes (unless the employee refuses to renew the contract upon maintained or raised provision proposed by the employer)
Mass lay-off	- Company being restructured under the PRC <i>Enterprise Bankruptcy Law</i> - Serious difficulties in production or operations - Company changes production method, making staff unnecessary - Objective economic situation makes employment impossible	- Fixed-term - Non-fixed term	Yes
Automatic termination upon bankruptcy/ revoke/dissolution	- The employer is declared bankrupt pursuant to the law - The employer's business license is revoked - The employer is ordered to close down - The employer has decided to dissolve prematurely	- Fixed-term - Non-fixed term	Yes
Termination with 30 days' notice and mass layoff not allowed for	- The employee is suspected of having occupational disease(s) and waiting for diagnosis; - The employee has completely or partially lost labor capability due to occupational disease(s) or work injury; - The employee is still in the legal recuperation period for non-work-related illness/ injury; - The employee is pregnant, on maternity leave or in nursing period; and - The employee has continuously worked for the employer for more than 15 years and is less than five years before retirement.		

Note: When unilaterally terminating an employee, the employer needs to notify the labor union if there is one.



Cybersecurity and Data Protection

- ◆ What are the major cybersecurity and data protection laws?
- ◆ What are some of the key compliance requirements?

Cybersecurity and data protection are becoming increasingly important in China, as in most major economies. With the release of the *Cyber Security Law* (CSL), the *Data Security Law* (DSL), the *Personal Information Protection Law* (PIPL), together with some other relevant data security regulations and guidelines, China is fleshing out its extensive legal realm of cybersecurity and expands and clarifies requirements for companies to protect data and networks in several areas.

In this chapter, we introduce China's major cybersecurity and data protection laws and regulations, explain the key compliance requirements for businesses, and provide practical tips on preparing for these new obligations.

What are the major cybersecurity and data protection laws?

So far, the three sweeping laws – the CSL, the DSL, and the PIPL, together with some other relevant data security regulations, department rules, standards, and guidelines, form the legal framework for cyberspace governance, information security, and data (privacy) protection in China.

The CSL, effective from June 1, 2017, is a milestone for cybersecurity legislation in mainland China and serves as a “Basic Law” in its field. The Law is an evolution of the previously existent cybersecurity rules and regulations from various levels and fields, assimilating them to create a structured law at the macro-level. The Law also offers principle norms on certain issues that are not immediately urgent, but are of definite long-term importance. These norms will serve as legal reference when new issues arise. The CSL has a wide influence over all enterprises that employ networks or information systems in their operations. According to related articles of the CSL, enterprises are roughly categorized into “network operators” and “critical information infrastructure (CII) operators” based on the enterprise's types and their business scopes.

On September 14, 2022, the Cyberspace Administration of China (CAC), China's top cybersecurity body, released draft amendments to the 2017 CSL. The amendments were adopted by the Standing Committee of the National People's Congress (NPC) on October 28, 2025, introducing updates to enhance oversight of artificial intelligence and refine regulatory obligations for both network operators and CII operators.

The DSL, effective from September 1, 2021, contains a wide range of provisions that stipulate how data is used, collected, developed, and protected in China. It emphasizes on top-down coordination of data security implementation among governments and differentiated fines based on severity of violations.



PHOEBE YAN

Partner
Dalian Office

“Cybersecurity and data protection are becoming increasingly important in China. Building compliance into IT infrastructure and systems is key to achieving the goals set in the laws and regulations.”

Among others, the most important part is probably the dealing of the “important data”, which generally refers to data related to “national security, national economy, and the people’s livelihood”. The DSL as well as some other regulations have repeatedly stipulated that transferring “important data” overseas are subject to a security review. While DSL does not elaborate on what constitutes “important data”, it requires government departments to formulate the catalogue of “important data”. The MIIT had become the first central authority to follow the directive. After two rounds of public comments in September 2021 and February 2022, the *Management Measures for Data Security in the Field of Industrial and Information Technology Sectors (for Trial Implementation)* was finally released on December 13, 2022, which divides the data in the fields of industry and information technology into three categories and clarifies the criteria for distinguishing “general data”, “important data”, and “core data”.

The PIPL, in effect since November 1, 2021, is China’s first law specifically regulating the protection of personal information, which has a far-reaching impact on data privacy compliance of enterprises. Similar to European Union’s *General Data Protection Regulation* (GDPR), the PIPL defines what is considered personal information in China and lays principles and rules on processing general personal information and sensitive personal information. One particular important point is that for firms processing personal data of more than a certain amount as well as CII operators, personal information collected or generated within the territory of China are required to be stored within China. If it’s necessary to provide the data overseas, the firm must undergo a security review conducted by the CAC in advance.

In addition to the three sweeping laws, the CSL, the DSL, and the PIPL, China has introduced a broad set of supporting data regulations that together create a more structured and enforceable framework for data governance.

Between 2021 and 2023, regulators issued rules defining how companies should manage critical information infrastructure, classify and protect data, undergo cybersecurity reviews, and handle cross-border data transfers. Key measures include the *Regulations on the Security and Protection of Critical Information Infrastructure*, *Measures for Data Export Security Assessment*, *Management Measures for Data Security in the Industrial and Information Technology Sectors*, *Standard Contract Measures for the Export of Personal Information*, and the *Guidelines for the Filing of Standard Contracts for Exporting Personal Information Abroad*, among others.

From late 2023 onward, cybersecurity authorities began shifting toward easing compliance burdens to support business operations. New guidelines and technical standards, such as the *Regulations to Promote and Standardize Cross-Border Data Flows*, seek to clarify data classification, simplify cross-border data transfers, and introduce pilot mechanisms such as data whitelists and negative lists in free trade zones. These pilots enable companies in industries such as automotive, biopharmaceuticals, and financial services to transfer certain types of data overseas with fewer procedural hurdles.



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Revisions to China’s Cybersecurity Law: Strengthened Oversight and Alignment with Emerging Technologies

*China Briefing Article
November 5, 2025*

The China Cybersecurity Law amendment introduces the first revisions to the law since 2017, expanding state support for AI development while tightening compliance obligations for network operators and critical information infrastructure. The amendment also aligns cybersecurity provisions with the PIPL and increases penalties for violations involving data handling, emergency response, prohibited content, and cross-border data transfers.

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In 2025, the *Network Data Security Management Regulations* came into effect on January 1, establishing a comprehensive framework for the management and protection of important data and introduce specific guidelines for data processors wishing to transfer personal information overseas. The *Measures for the Administration of Compliance Audits on Personal Information Protection* took effect on May 1, detailing requirements for enterprises to undergo periodic personal information protection audits. The *National Cybersecurity Incident Reporting Management Measures* came into effect on November 1, setting out the circumstances under which companies must report data leaks or cybersecurity incidents to the authorities.

Overall, while China's data governance system continues to evolve, recent policy developments indicate a move toward greater regulatory clarity and more predictable compliance pathways.



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What are some of the key compliance requirements?

Personal information protection

As a special legislation in the personal information protection field, the PIPL puts forward detailed obligations on businesses— as personal information processors – by incorporating special chapters and clauses.

The role of companies in personal information protection

Under the PIPL, businesses are “personal information processors”, because they “independently decide the purpose and method of processing and other personal information processing matters” of the employees’ or clients’ personal information. This concept is similar to the “data controller” under the GDPR.

Personal information, which is referred to as “personal identifiable information” in the US or “personal data” in the EU, pertains to various kinds of information that is related to any identified or identifiable natural persons as recorded by electronic or other means.

The processing of personal information refers to types of behaviors in relation to personal information, including the collection, storage, use, processing, transmission, provision, publication, and erasure of personal information.

To be noted, even if the businesses process domestic natural person’s personal information outside of China, the entity may still be subject to the PIPL in the below two circumstances:

- Where the company provides products or services to individuals inside China; and
- Where the company analyzes and evaluates the activities of individuals inside China.

This stipulation is similar to the “long-arm jurisdiction” under the EU’s GDPR.

Principles of personal information processing

When processing personal information, companies must follow the basic principles:

- The principle of legality: Personal information must be handled in accordance with the law and shall not be handled by misleading, fraud, coercion, or other means.
- Principle of legitimacy: The processing of personal information of natural persons shall have legitimate purposes, not for snooping personal privacy or other illegal purposes.
- Principle of necessity: The processing of personal information should have a clear and reasonable purpose and should be directly related to the purpose of processing, and the entire exercise must be based on a certain necessity.
- Principle of good faith: “Good faith” is the basic principle of all civil activities, and the employer should pay more attention to the principle of good faith when dealing with employees’ personal information.



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GDPR Versus PIPL – Key Differences and Implications for Compliance in China

*China Briefing Article
May 18, 2022*

China’s PIPL shares similarities with Europe’s GDPR, but the two do not perfectly overlap. Foreign companies in particular must be aware of the differences between the respective regulations to ensure cyber data compliance. We compare the PIPL vs GDPR and discuss the steps that companies should take to be compliant.

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- Minimum principle: The processing of personal information shall be limited to the minimum scope for the purpose of processing and excessive collection of personal information shall not be allowed. Personal information processor should adopt a processing method that has least impact on the rights and interests of individuals. For the personal information obtained, the scope of knowledge or the scope of dissemination should be limited to the minimum. Especially in the employment management, the scope of knowledge should be limited to the relevant management level and cannot be extended to other employees.
 - Principle of openness and transparency: The rules for personal information processing rules shall be disclosed, and the purpose, method, and scope of personal information processing shall be clearly stated.
 - Quality assurance principle: In handling personal information, the quality of personal information shall be guaranteed to avoid adverse impact on personal rights due to inaccurate and incomplete personal information.
 - Security principle: The use and processing of personal information must be established on the basis of ensuring information security.

Among all the principles, businesses are suggested to pay special attention to the principle of necessity and the principle of minimum, which are easier to be challenged in practice.

Consent management

The PIPL has provided differentiated consent management rules based on the kind of personal information and the processing activity of the personal information, as stipulated in Article 13, Article 23, Article 29, and Article 39 of the PIPL.

For general personal information, obtaining individual's explicit and informed consent is the principle, but there are circumstances where consent can be waived, as provided in Article 13 of the PIPL. To be noted, however, such exemption has strict conditions.

In the case where the information falls into the scope of sensitive personal information, or where the company shares personal information to a third party or transfers personal information it processes to an overseas party, a separate consent from the individuals is required, in addition to the general consent.

In addition to the above circumstances, Article 15 of the PIPL requires the personal information processor to "provide a convenient way to let the user withdraw their consent".

Consent Management Under the PIPL	
Circumstances	Consent requirement
Processing general personal information	Yes, with exceptional circumstances
Processing sensitive personal information	Yes, separate consent is required
Providing personal information to other PI processors	Yes, separate consent is required
Providing personal information to overseas	Yes, separate consent is required

Processing sensitive personal information

The PIPL sets stricter requirements on data processors to protect sensitive personal information.

Under the PIPL, sensitive personal information refers to the personal information that is likely to result in reputational damage or serious personal or proprietary endangerment, including such information as biometric identification, religious belief, specific identity, medical health, financial account, and whereabouts, as well as the personal information of minors under the age of 14 years. A personal information processor may process sensitive personal information only for a specific purpose and with sufficient necessity, and strict protection measures are in place to prevent abuse or misuse.

Besides, the processing of sensitive personal information of an individual shall be subject to the individual's separate consent. Where laws and administrative regulations provide that the processing of sensitive personal information shall be subject to the written consent, such provisions shall prevail. To process personal information of a minor under the age of 14 years, the personal information processor shall obtain the consent of the minor's parents or other guardians.

In addition, for the sensitive personal information of an individual, the personal information processor shall inform the individual of the necessity of processing and the impact on their personal rights and interests, in addition to the normal notification matters, except for the circumstances that may be exempted from informing the individual of such information in accordance with the PIPL.

Providing personal information to third party

In the daily operations of businesses in China, there are many occasions that may require sharing the personal information that they possess with a third party, such as if the company outsources its payroll processing to a third-party service firm. Another example is when a company shares personal information with a business partner who may decide to process the received personal information for purposes other than the original one.

Article 21 and Article 23 of the PIPL sets rules for providing personal information to a third party. Accordingly, where the company entrusting a third-party firm to process personal information within the original scope and purpose, no separate consent is required. However, where the cooperation of the company with a third-party firm involves personal information processing beyond the original purpose and scope, the company should comply with its notification obligation and obtain separate consent from employee. Besides, the company should conduct careful due diligence of a third party to guarantee its security and compliance before cooperating with it. Moreover, the company should make corresponding provisions in the commercial contract with the third party to clarify the matters related to personal information processing.

Automatic decision-making

Article 24 requires the data processor to provide users with an alternative option or the ability to refuse the use of their personal characteristics for marketing and push information through automated decision-making mechanisms.

This means the system needs to be able to receive the recipients' feedback and exclude certain users from automatic decision-making mechanisms, which requires special consideration when designing the system.

Providing personal information to overseas stakeholders

The PIPL stipulates various requirements on the cross-border transmission of personal information, which shall be paid special attention to by relevant enterprises.

Under the PIPL, in addition to obtaining separate consent from individuals mentioned earlier, Article 39 also requires the personal information processor to inform the individual of such matters as the name of the overseas recipient, contact information, purpose and method of processing, type of personal information, and the way and procedure for the individual to exercise the rights against the overseas recipient.

Article 38 of the PIPL offers the following procedures for companies to receive clearance to transfer the PI of China-based subjects overseas:



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Data Compliance in China: A Roadmap for Foreign Investors

October 2025

In China's fast-evolving digital landscape, data compliance has become a strategic imperative – not just a legal obligation. This issue of China Briefing Magazine offers foreign investors a clear roadmap through the country's complex regulatory terrain, from cross-border data transfers to localization rules and sector-specific enforcement.

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- Undergo a security review organized by the CAC, except where exempted by relevant laws and regulations.
- Undergo PI protection certification by a professional institution in accordance with the regulations of the CAC.
- Sign a contract with a foreign party stipulating the rights and obligations of each party in accordance with standards set by the CAC.
- Meet other conditions set by the CAC or relevant laws and regulations.

According to the latest regulations, companies must undergo a security assessment by the CAC if they wish to export data under any of the following scenarios:

- The company is a CIIO;
- The company exports important data overseas;
- The company has provided the PI (excluding sensitive PI) of over 1 million people to overseas parties since January 1 of the current year;
- The company has provided the sensitive PI of over 10,000 people to overseas parties since January 1 of the current year; or
- Other situations required to declare data export security assessment as stipulated by the CAC.

PI Export Volume Thresholds for CDBT Compliance Procedures

Required compliance procedure	New regulations
No procedures required	Cumulative since January 1 of the current year: < 100,000 (normal PI)
PI protection certification or Standard Contract signing	Cumulative since January 1 of the current year: ≥ 100,000 (normal PI) < 1,000,000 (normal PI); or < 10,000 (sensitive PI)
Security assessment by CAC	Cumulative since January 1 of the current year: ≥ 1,000,000 (normal PI); or ≥ 10,000 (sensitive PI)



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Personal Information Protection Impact Assessment

Article 55 of the PIPL requests the company to carry out Personal Information Protection Impact Assessment (PIPIA) when “processing sensitive personal information, making automatic decision-making for the use of personal information, entrusting other parties to process the personal information, and providing personal information to overseas parties”. Article 56 further specifies the PIPIA requirements, which should include assessing the purpose of personal information processing, the impact it may have on personal rights and interests, and whether the protection measures currently in place are adequate.

The requirements of conducting a PIPIA are similar to conducting a DPIA under the GDPR. Both processes require companies to identify the purpose for processing PI, the potential risks to individuals, and whether the company has taken the appropriate control measures for protecting the PI.

Once the PIPIA process is completed, the below information should have been gained (and saved for at least three years as required by Article 56 of the PIPL):

- Description of the processing and its purpose.
- The legitimate interests within the processing.
- An assessment of the necessity and proportionality of the processing.
- An assessment of the risks to individuals (or data subjects in the GDPR context).
- The measures envisaged to address the risks.
- All of the safeguards and security measures to demonstrate compliance.

Ensuring the rights of individuals for their personal information

Articles 45 to 47 of the PIPL stipulate the rights of individuals to inquire about what personal data is being collected and stored by the data processor. They also allow the users to request a copy of their personal data, correct any inaccurate personal information, and delete their personal information when withdrawing consent or terminating the use of the product or service.

Companies therefore need to consider how to quickly locate each user’s personal information within the IT system and predefine a way of exporting a copy and delivering it to the user. Companies also need to consider ways of making each user’s record ‘independent’ to ensure that the deletion of one user’s record will not impact other existing or in-use data.

The right to deletion requires the company to consider the deployment of a universal platform for saving related personal data, so that the data can be easily located and deleted from all locations. Companies also need to plan for a reasonable authentication mechanism to accurately recognize the user who makes an inquiry or requests a copy, update, or deletion. As Article 49 of the PIPL also stipulates that the rights of an individual shall be exercised by his or her next of kin when the natural person dies. This presents an even bigger challenge for personal information processors, who also need to be able to recognize and authenticate a user’s next of kin.



TONY TANG

Manager
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“In order to comply with the PIPL, companies not only need to understand the law itself but also require strong technological expertise.”

Data classification and grading protection

Under the current cybersecurity and data protection regime, companies operating in China are expected to properly classify their data into “important data”, “core data”, and “general data” based on its sensitive nature, impact on national security, and potential damage in case of data breach, and protect them with corresponding measures.

While the scope of these data categories and relevant protection measures are yet to be clarified, the data classification and grading protection for companies utilizing the internet for data processing are more established. The Multiple-Layer Protection Scheme (MLPS), a set of national standards first introduced by China in 2004 and adopted into the CSL in 2017 and several national standards in 2019, lays the foundation of data security management that cover full data life cycle.

The updated MLPS 2.0 framework categorizes data into five levels, ranging from Level 1 (least sensitive) to Level 5 (most sensitive). Under this regime, companies, recognized as network operators, are required to assess their own systems to determine their classification within these levels. Subsequently, they must adhere to the corresponding security control measures associated with their designated level.

For example, for Level 2 data or above, an on-site evaluation of in-place security control measures must be performed by a government-designated “security auditing” firm.

The classification under the MLPS 2.0 is as shown in the below table.

Multi-Level Protection Scheme 2.0			
Object of infringement	Extent of infringement		
Assessment	General	Serious	Particularly serious
Chinese citizens, legal persons, and other organizations concerned	Level 1	Level 2	Level 3
Social order or public interest	Level 2	Level 3	Level 4
National security	Level 3	Level 4	Level 5

Data localization

Currently, China’s data localization requirements include domestic storage of data generated by CIOs, data in specific industries, as well as certain personal information.

According to Article 37 of the Cybersecurity Law, CIOs must store personal information and important data collected and generated within China domestically. The DSL reiterates the



localization requirements for important data collected and generated by CIIOs in China as outlined in the Cybersecurity Law.

The PIPL stipulates that personal information processed by state agencies and personal information collected and generated by CIIOs in China should primarily be stored within the country. However, it allows for cross-border data transfers under certain conditions, provided that data security is ensured.

When information and data need to be provided abroad for business purposes, the provision must undergo necessary procedures (with exemptions), such as the security assessment organized by the CAC, the PI protection certification by a professional institution, or the standard contract with a foreign party stipulating the rights and obligations of each party. Due to the evolving scope of certain definitions, foreign businesses, in practice, are typically cautious and tend to apply the data localization rule to most data generated or collected in China.

Regular compliance audit for personal information protection

A personal information protection compliance audit (PIP compliance audit or PIP audit) in China is a legally mandated process that evaluates whether an organization's personal information processing activities comply with the country's data protection laws – primarily the PIPL and related regulations.

The release of the *Measures for the Administration of Compliance Audits on Personal Information Protection* (effective May 1, 2025) and corresponding guidelines from TC260, such as the *PIP Compliance Audit Requirements*, has transformed the PIP compliance audits into enforceable obligations.

The audit requirement applies broadly but is especially critical for entities processing large volumes of personal information. Companies handling over 10 million records must conduct audits at least once every two years, while those processing between one and ten million records are advised to audit every three to four years. Even smaller processors are encouraged to audit every five years, reflecting regulators' intent to embed compliance culture across all data handlers.

Companies are allowed to conduct compliance audits internally, using either an internal organization or an entrusted third-party agency. If a company chooses a third-party agency, it must ensure the agency is capable of performing specific activities outlined during the audit to ensure its effectiveness. Generally, third-party agencies should complete the audit within 90 working days, but they may apply for an extension in complex situations.

Beyond regulatory compliance, audits serve as a strategic tool for risk management. They help organizations identify gaps in data handling practices, assess exposure to legal and reputational

risks, and implement corrective measures. High-risk scenarios, such as employee data processing, customer profiling, app and website data collection, cross-border transfers, third-party sharing, automated decision-making, and biometric data use, require particular scrutiny.

Cybersecurity incident reporting

From November 1, companies in China will be required to follow new rules for reporting cybersecurity incidents under the *National Cybersecurity Incident Reporting Management Measures* (the “Incident Reporting Measures”). The measures, which were issued by the Cyberspace Administration of China (CAC) on September 11, 2025, apply to both domestic and foreign companies that build or operate internet networks or provide online services in China. They set out strict reporting obligations, with deadlines that vary depending on the type of company and the severity of the incident.

As soon as a company discovers or becomes aware of a cybersecurity incident involving its own business, it must conduct an assessment in accordance with the *Guidelines for the Classification of Cybersecurity Incidents*, released as an Appendix to the Measures.

Security Incident Reporting Time Limits		
Type of entity	Incident risk level	Reporting time limit
Critical information infrastructure operators	Cybersecurity incident at or above the “relatively serious” level	No later than 1 hour after the incident occurred.
	“Serious or extremely serious” cybersecurity incident	No later 30 minutes after receiving the report
Network operators belonging to central and state government departments and their directly affiliated units	Cybersecurity incident at or above the “relatively serious” level	No later than 2 hours after the incident occurred.
	“Serious or extremely serious” cybersecurity incident	No later than 1 hour after receiving the report.
Other network operators	Cybersecurity incident at or above the “relatively serious” level	No later than 4 hours after the incident occurred.
	“Serious or extremely serious” cybersecurity incident	No later than 1 hour after receiving the report.

Companies are required to provide a bundle of information when reporting a cybersecurity incident, as well as further developments. Within 30 days of resolving a cybersecurity incident, the company must conduct a comprehensive review covering the causes, emergency response measures, impacts, accountability, remediation efforts, and lessons learned, and submit an incident handling report through the original reporting channels.



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