



HONGDA
CHINA COMPANIES MADE EASY

CHINA COMPANY COMPARISON TABLE



China has become a hotbed for global business with foreign nationals hailing from all 4 corners of the world coming to the Mainland to ply their trade. These days there are a greater number of different investment vehicles for business owners to choose from, each with their own unique benefits and potential drawbacks, different set up procedures, taxation laws, legal forms and required capital investment.

Familiarizing oneself with the pros and cons of each of these investment vehicles is a must for all potential business owners. The Hongda Business Services China Company Comparison table aims to educate foreigners new to the region about the different platforms so that they have a better idea of which type of company is best suited to their unique business needs and goals.

Our table provides a comparison of the following China companies:

- 1. China WFOE/WOFE**
- 2. Hong Kong Company**
- 3. Representative Office**
- 4. QianHai Company**
- 5. Joint Venture (Equity JV)**
- 6. Joint Venture (Cooperative JV)**



China companies	WFOE (Wholly Foreign Owned Enterprise)	HK Company	RO (Registered Office)	QianHai Zone Company	Joint Venture Equity JV	Joint Venture Cooperative JV
1. Operation flexibility	Very flexible and independent	Very flexible and independent	Restricted and dependent	WFOE, Joint Venture (Equity or Cooperative) and a Representative Office can be set up in this special zone	Very flexible and independent	Very flexible and independent
2. Legal liability	Limited to the extent of its whole subscribed capital	Limited liability	Fall on the parent company	Depends on the type of company registered	Limited liability	CJVs can be registered in both limited and unlimited forms
3. Scope of business	WFOEs can only engage in business activities defined in the Articles of Association. The three main types of WFOEs that one can establish in China are: Consulting WFOE Service WFOE Trading WFOE	No requirement for Hong Kong registered companies to define their business scope	Scope of activities in an RO are limited to conducting market research, performing quality control	Depends on the type of company registered	Equity JVs can only engage in business activities defined in the Articles of Association	Cooperative JVs can only engage in business activities defined in the Articles of Association
4. Registered capital	Shareholders generally must fully pay subscribed capital within five years of company establishment, subject to statutory exceptions (+)	No restriction on the minimum or maximum of registered capital	No paid-up capital required	Depends on the type of company registered	No general minimum foreign equity ratio; subject to applicable negative-list and special rules	Registered capital is required
5. Set up time	2 months	2 weeks	3 weeks	2-3 months	3 months	3 months
6. Taxation	Turnover tax; Income tax; Dividend tax (*)	Corporate income tax: 16.5%. No dividend tax	Tax treatment depends on activities, accounting records, assessment method and current rules; individual income tax may apply (*)	Preferential tax policies for select industries (#)	Turnover tax; Income tax; Dividend tax (*)	Turnover tax; Income tax; Dividend tax (*)
7. Accounting maintenance	Monthly; Quarterly; Annually	Annual license renewal; Annual audit	Monthly; Quarterly; Annually	Monthly; Quarterly; Annually	Monthly; Quarterly; Annually	Monthly; Quarterly; Annually
8. Maintenance Cost	Mid	Low	High	High	High	Mid
9. Advantages 10. Disadvantages	Please see page 3					

China companies

9. Advantages

10. Disadvantages

WFOE (Wholly Foreign Owned Enterprise)	HK Company	RO (Registered Office)	QianHai Zone Company	Joint Venture Equity JV	Joint Venture Cooperative JV
1) Independence to operate in China the way you see fit 2) The ability to trade as a normal company 3) Invoicing in reception of revenue in CNY 4) Ability to transfer profits in USD to the parent company outside of China. 5) Ability to hire low cost local labour and decide who to hire and when. 6) Ability to protect intellectual property 7) All profits belong solely to the WFOE. 8) Business license is valid for 15-30 years	1) A presence in Hong Kong, gateway to China and SE Asia 2) Access to low corporate and individual taxes 3) Easy and fast corporation 4) Simple tax and accounting requirements 5) 'Western' legal system 6) Efficient and mature business banking 7) Unrestricted flow of capital and information 8) World class infrastructure and communication facilities 9) Low investment required 10) No need to live in Hong Kong 11) Virtual office addresses are permitted	1) Helps one establish a presence in China 2) Enhanced brand-building capabilities by being where the customers are 3) Ability to share technology and ideas with local contacts 4) Ease of conducting local market research 5) Coordinate the foreign parent company's activities 'on the ground' in China, be they market, distribution, etc 6) Liaise with local contacts more easily and efficiently	1) Under current policy, qualifying enterprises may be subject to a 15% corporate income tax rate through December 31, 2027, subject to the current preferential catalog and applicable conditions. 2) 'Green' companies rewarded with CIT tax breaks 3) VC SMEs eligible for CIT tax breaks 4) Businesses may account for 30% of their income from none-preferential business activities 5) Foreign high-end talent, skilled foreign workers, may be eligible for individual income tax reductions by subsidy if the income tax equals 15% or more of their total taxable income. 6) Reformed tax declaration, making it easier and faster for companies to handle their taxes in China 7) Close proximity to Hong Kong and the main cities of the PRD 8) Can get loans from Hong Kong banks in CNY, but with Hong Kong loan rates 9) Billions of CNY in government grants for preferred industries 10) Easy access to Hong Kong and overseas banks, many of whom choose QianHai as their local HQ 11) World class logistics 12) Youth entrepreneur innovation hub offering subsidized company start up costs	1) Gain more insider knowledge and expertise in the region 2) Simpler handling of complicated bureaucratic procedures 3) Greater access to a massive market and any existing distribution networks 4) Sharing of all of the risks and expenses with a partner 5) Greater access to local resources and cheaper labour 6) Strengthen a company's position and win even more market share 7) Continue to stay competitive in the world space 8) Open up new business opportunities outside of a company's core business	1) Gain more insider knowledge and expertise in the region 2) Simpler handling of complicated bureaucratic procedures 3) Greater access to a massive market and any existing distribution networks 4) Sharing of all of the risks and expenses with a partner 5) Greater access to local resources and cheaper labour 6) Strengthen a company's position and win even more market share 7) Continue to stay competitive in the world space 8) Open up new business opportunities outside of a company's core business
1) Lengthy/costly registration procedure 2) Expansion of business scope requires application and approval	1) Must go to HK to open a corporate bank account 2) HK banks may be selective with customers due to high demand for their services 3) At least one of the directors of a HK company has to be a natural person	1) May not do business of any kind which results in profit 2) May not finalize deals and sign business contracts for the parent company 3) May not represent other companies 4) May not buy property in China 5) May not import equipment into China 6) May not invoice local	1) Not suitable for non-service related industries. These businesses do not enjoy the same tax breaks 2) QianHai is a very new development and it has rules, laws, and processes which are unique in China. Foreign businesses may find these hard to follow 3) In order to take advantage of investment opportunities, owners will need local advice from Chinese individuals who know exactly what these are. . Skill in the language becomes a must	1) Miscommunication between partners may result in costly business decisions 2) Have to share all the risks and expenses with one's partner 3) Conflicting management styles may lead to disparity within the company 4) Mismanagement of resources will lead to higher expenditure and waste 5) An imbalance may occur in what each	1) Miscommunication between partners may result in costly business decisions 2) Have to share all the risks and expenses with one's partner 3) Conflicting management styles may lead to disparity within the company 4) Mismanagement of resources will lead to higher expenditure and waste 5) An imbalance may occur in what each partner brings to the joint venture 6) Cultural differences may lead to confrontation between partners and a falling out

(+)- Under the current Company Law, shareholders of a limited liability company generally must pay their subscribed capital in full within five years from the company's establishment, in accordance with the articles of association. Where laws, administrative regulations or State Council decisions provide otherwise for paid-in capital, minimum registered capital or contribution periods, those provisions apply.

Each local regulator has its own basic standards on what constitutes adequate capital for certain types of business activities. Avoid making these mistakes when considering the registered capital for your company so you are not under-funded:

1- Do not assume your assets can be used as a contribution towards the minimum capital requirement

Shipping certain assets over to China without proper authorization and expecting to use those assets towards minimum capital will land you in a spot of trouble. Notify the proper authorities well in advance before shipping.

2- Do not assume that the Chinese regulators will put the same value on assets in determining the contribution towards minimum capital

The Chinese regulators will require their own appraisal of anything other than monetary contributions towards the minimum capital requirement. Make allowance for this to avoid incurring a loss on the value of your assets.

3- Do not assume that lower registered capital is necessarily appropriate for the company

When registering a China WFOE it is of the utmost importance that your company DOES make allowance for enough registered capital to cover all of your initial running costs. This should be based on your projections and the business activities your company engages in. Failing to do so will result in your company having to inject more money from the parent company that China will then tax you on as income.

When transferring funds for capital purposes it needs to be done through the share holder's overseas account. Capital contributions must follow the company's articles of association and applicable law; for a limited liability company, shareholders generally must pay their subscribed contributions within five years from the company's establishment, subject to statutory exceptions. The funds can be converted into RMB and used for local office expenses or business usage usually within one working day.

After one has obtained a capital report or deposit receipt from the bank indicating the amount of capital transferred, the last step is to update the company's business license to reflect how much capital one already deposited.

(*)- China's current tax treatment depends on the entity's activities, taxpayer status and applicable rules. The former Business Tax was replaced nationwide by value-added tax (VAT) from May 1, 2016. Enterprises may also be subject to corporate income tax and other applicable taxes, with rates, withholding treatment and incentives determined under current law and the facts of the transaction or taxpayer.

(“- A representative office's tax obligations depend on its activities, accounting records, assessment method and the current rules applied by the competent tax authority. The historical percentage estimates in the previous text should not be used as current-rate guidance.

(#)- Hi-tech enterprises, integrated circuit enterprises and software and IC enterprises are exempt from corporate income tax (CIT) for two years starting from their first profitable year and taxed at a half-rate for the following three years.

Technology transfers are granted a preferential tax reduction.

Investments in energy- and water-conservation equipment are tax deductible. Enterprises engaging in environmental protection projects such as energy- and water-conservation are exempt from CIT for the first two years and taxed at a half-rate for the following three years.

R&D investments in new technologies, products and processing are tax deductible.

Animation enterprises are exempt from CIT for the first two years of operations and taxed at a half-rate for the following three years.

Preferential policies are provided to promote the development of securities and investment funds.

Preferential CIT policies are provided to Qualified Foreign Institutional Investors (QFII).

Venture Capital (VC) enterprises that make equity contributions to small and medium-sized enterprises (SMEs) for over two years are eligible for tax reductions.

Other Preferential Tax Policies

Qianhai also provides enterprises with special tax policies such as reduced CIT and individual income tax (IIT) rates. Details of these preferential tax policies can be seen below.

Preferential CIT Policies

Under current policy, qualifying enterprises in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone may be subject to a reduced corporate income tax rate of 15% through December 31, 2027. Eligibility must be assessed under the current preferential catalog and applicable conditions.

Preferential IIT Policies

According to the “Circular on Financial Subsidies for Individual Income Tax on Foreign High-end Talent and Talent in Short Supply in the Qianhai Zone (Shen Fu [2012] No. 143),” foreign high-end talent engaged in encouraged industries in the Qianhai Zone are eligible for IIT reductions. Financial Subsidies will be provided by the Shenzhen municipal government if the amount of IIT income paid by the foreign talent on his/her salary exceeds 15 percent of his/her total taxable salary income.

Current VAT Treatment

The former Business Tax treatment described in this section no longer applies. Since May 1, 2016, relevant taxable services have been brought within the VAT system. The applicable VAT treatment for factoring and other services depends on current VAT rules and the specific transaction.

Preferential Stamp-tax Policies

Contracts signed for outsourcing activities between companies within a corporate group are regarded as agency appointment contracts and shall be exempt from stamp-tax.

Furthermore, tax declaration procedures have been substantially simplified in the zone, enabling taxpayers to complete their tax declarations within only 10 minutes.

We trust that you found this China company comparison useful and we'd like to provide you with even more resources on each of them!

For more on a China WFOE/WOFE:

[China WFOE Registration: A Brief Overview](#)

[6 careless mistakes foreigners make when setting up a WOFE in China](#)

For more on a Hong Kong Company

[Hong Kong Company Formation: Why Bother?](#)

[Hong Kong Company Registration & Running Costs: No Tricks!](#)

For more on a Representative Office

[What Is A Representative Office In China?](#)

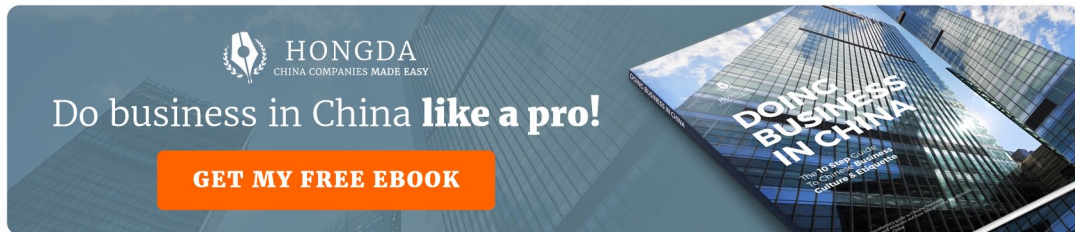
For more on a QianHai Company

[QianHai Company Setup: What Is Shenzhen's QianHai Zone & Why Go There?](#)

For more on a Joint Venture

[Pros and cons of embarking on a joint venture in China's PRD region](#)

Coming to China on business? Get your own 10 step guide to Chinese Business here!



China is a country on the rise, one that is opening up its doors to more foreign visitors and businesspeople than ever before, but its culture and the way that its people conduct business is still quite different than how things are done in the West. Tapping in to the 'Chinese way' of doing business will help to take you a step closer to realizing your business goals in China, and we are here to show you how!

Hongda Business Services is offering you a comprehensive 10 step guide to Chinese business culture & etiquette that will help you negotiate your way through any business situation in China.

