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IDEAL WAY TO ENTER CHINA

AN IDEAL WAY TO ENTER CHINA'S MAINLAND MARKET

Foreign investors have several choices for structuring a China enterprise. However, this requires taking into consideration several factors for each vehicle type as this will lead to different legal and tax considerations. Some of the choices for setting up investment vehicle are:

- Representative office (RO)
- Wholly Foreign Owned Enterprise (WFOE)

Choosing the appropriate vehicle from the outset will be invaluable for the long-term success of your investment. Here we examine the options between RO and WOFE.

Representative Office VS Wholly Foreign Owned Enterprise

Quick comparison	Representative Office "RO"	Wholly Foreign Owned Enterprise "WFOE"
Status	RO is not a legal entity and cannot conduct business activities in China	WFOE is a legal entity. It's a limited liability entity which can conduct business activities in China and issue invoices «fapiaos» preferred by local customers
Calculation of taxation	Based on cost and expenses incurred	Based on revenue and profits made in China. Some expenses are costs which may be deducted from the revenue, thus, reducing profit tax burden
Human resource management	Cannot hire local staff directly, but only through a designated HR agency	Can hire local staff directly which allows full management power on all its employees
Risk management	Since RO is not a legal entity, any problem arising in China may negatively impact the HQ in Europe	WFOE is a separate legal entity which can be propective for the HQ in Europe
Investment	No capital investment required	Minimum capital investment required (RMB 100K-500K)
Ownership	100% foreign ownership allowed	100% foreign ownership allowed
Set up time	1-2 months	3-5 months

WFOE is becoming increasingly populat that wants an «on the ground» presence in China. Moreover, due to changing tax burden, more and more ROs are being closed in preference of WFOE.

Establishing a FICE in China

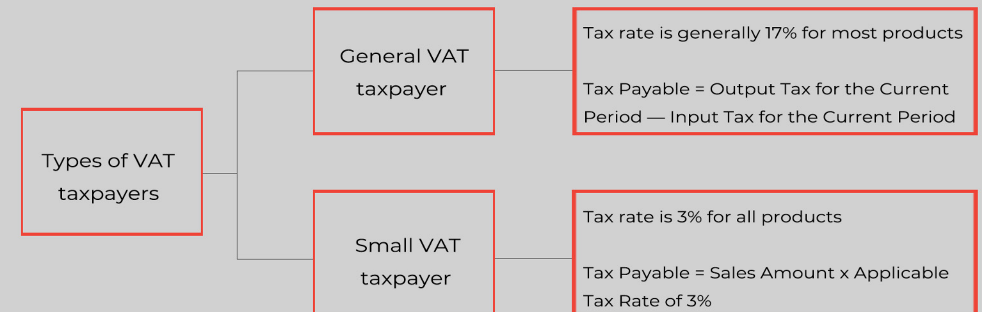
A FICE is a Wholly Owned Foreign Enterprise (WOFE) with import and export rights. Establishing a FICE is one of the best ways for a foreign company to distribute its products in China. FICE can carry out a wide range of activities in China, including: wholesaling, retailing, franchising, commission agency

The establishment process for a FICE is very similar to that of a WFOE, except FICE does not have to file an Environmental Protection Valuation Report as they do not manufacture or process. However, they are required to obtain a special Import-Export License Record with the Customs Bureau.

Key advantages of setting up a FICE instead of a WFOE is FICE is more cost effective with low labor cost involved, easier to set up and has more control over its intellectual property as there is rarely any need to share technical knowhow with the Chinese counterparts.

Two major taxes applicable to FICE

- Corporate Income Tax (CIT) - 25%
- Value-added Tax (VAT)



For FICEs, it is imperative to obtain the VAT general taxpayer status without which they cannot offset the deductible VAT (from purchases) from collectible VAT (from sales), and this can have a big impact on the company's profit margins.