
General Accounting and Tax Compliance Requirement For Foreign Invested Enterprises in Mainland China

Background

FIE, Foreign Invested Enterprise, is an independent legal entity, which takes responsibility for its performance limited to its capital. Generally, a FIE can carry out various businesses if there are no prohibiting laws and if they are in accordance with its business scope. Manufacturing, trading and service companies are various forms of FIE.

Cash management

- Generally speaking, a FIE will have three bank accounts, a capital USD bank account for capital injection, a current USD bank account for transaction in foreign currency and a basic RMB bank account domestic operation purpose.
- Authorized stamps/seals, such as the financial seal and the legal representative's seal or signatory must be applied onto payment documents (e.g. cheques) to take effect. These seals/stamps are normally carved during company setup period.
- Foreign currency could not be freely remitted in and out of China due to foreign currency controls. And all foreign currency transactions shall be filed to State Administration of Foreign Exchange accordingly.

Accounting Compliance

- The accounting and tax year in China is calendar year, i.e., from January 1st to December 31st. The enterprise that commences business in the middle of the year or has operated for less than 12 months in a tax year is to treat the actual operating period as the tax year. The liquidation period is considered as the final tax-reporting period.
- Accounting vouchers, ledgers, and financial statements should be prepared and maintained in line with PRC Generally Accepted Accounting Principles (GAAP)
- The language used for accounting treatment should be in Chinese or bilingual
- The cash and bank book and bank reconciliation should be maintained as part of the accounting records
- The balance sheet and profit & loss statement shall be submitted on monthly tax filing with other statutory tax returns
- FIE are required to take annual statutory audit by a qualified local CPA firm

Corporate Tax Filing Compliance

- Nearly all transactions in China are subject to a turnover tax, either value-added tax (VAT) or business tax. Certain categories of consumable goods are also subject to consumption tax.
- VAT and business tax are mutually exclusive
- The sale of taxable goods and the provision of labor services related to the procession of goods and of repair and replacement services within China are subject to VAT.
There are two types of VAT taxpayers, i.e. General VAT Taxpayer and Small-scale VAT Taxpayer. The criterion to differentiate between a General VAT Taxpayer and Small-scale VAT Taxpayer is the annual turnover. If the annual turnover of the trading company exceeds RMB 1,800,000, the trading WFOE can apply for General VAT Taxpayer status where the VAT rate is generally 17%. The calculation is based on the difference between input VAT and output VAT. The VAT rate for Small-scale VAT Taxpayers is 6% and there is no tax credit on input VAT. A benefit of a small-scale trading company is that it can apply for a preferential rate of 4% VAT.
- Business Tax applies to the provision of services (excluding processing services and repair and replacement services), as well as transfer of intangible assets such as goodwill, patents and the sale of real estate properties in China. The tax rates range from 3% to 20% and 5% is the predominant rate for most enterprises.
- VAT and business tax are required to be filed to in charge tax bureau within 10 days after the end of each month.
- Corporate Income Tax (“CIT”) is based on the corporate profit and the rate is 25% since year 2008. CIT return should be submitted within 10 days after the end of each quarter even if the taxpayer suffers a loss for the period. With profit, CIT shall be prepaid each quarter on filing.
- FIE needs to prepare the Annual Corporate Income Tax return to in charge tax bureau with statutory audit report of the fiscal year within four months after the end of fiscal year.

Should you have further consulting or related legal documents, please do not hesitate to contact us.

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