







FIE/FICE	By obtaining a customs registration	As consignor or consignee
International courier, and transportation company	By obtaining a customs registration	As agent
Professional declaration company	By obtaining a customs registration	As agent
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Types of customs registration



Comparison between international courier/ transportation company with declaration agent

- 1. Both provide declaration services to the consignor/consignee
- 2. International courier/transportation co can only declare goods for the consignor or consignee under contract of carriage
- 3. Declaration agent can make customs declarations for anyone who have got the I/E rights

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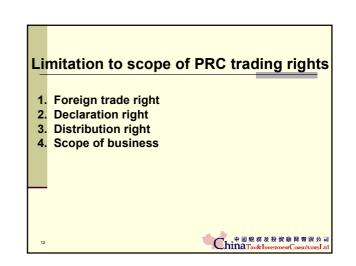


Before China's WTO accession

Amendment in the PRC law for the FIE that removes following requirements for the FIE:

- 1. to balance its receipt and payment of foreign currency
- 2. to purchase from domestic market (local contents)
- 3. to achieve export performance; and
- 4. to recording file the production plan with the government department

After China's WTO accession Administrative order by Details of the administrative order MOC Order No. 8 (2004) Chinese government fully opened up the distribution sectors to foreign investors Effective on 2004.6.1 Order No. 9 (2005) Production type FIE can import, export and 2 Effective on 2005.4.2 distribute third party goods by expanding scope of business 3 Order No. 76 (2005) FIE situated in FTZ and BLP is granted the distribution rights to do trading with Effective on 2005.7.13 companies situated outside FTZ/BLP Order 94 (2005) MOC delegates its approval authority to Effective on 2006.3.1 provincial governments ChinaTax終InvestmentConsultants





_	Scope of business MOC Administrative Order No. 8 (2004): -	
	Retail distribution	Wholesale distribution
1	Merchandise goods retailing;	Merchandise goods wholesaling
2	Imports of merchandise goods on the list of own trading items	Commission agent (except for auctioneering)
3	Sourcing domestic goods for export	Import and export of merchandise goods
4	Other related subordinated services	Other related subordinated services 中國統務系投資範疇實際公司 China TaxをInvestmentConsultantsLid

S	соре	of busin	ess activ	ities (I)	
		Production activities	Import/export trading activities	Domestic trading activities	Registration as foreign trader?
	FIE	Yes	Yes (a)	No	Not required
bu	E panding isiness cope	Yes	No	Yes	Not required
bu	E panding isiness cope	Yes	Yes	No	Required
(æ)	FIE is gr	anted limited	I/E rights.	ChinaTax&I	及投資顧問有限公司 nvestmentConsultantsLtd

	Production activities	Import/export trading activities	Domestic trading activities	Registration as foreign trader?
FICE in SEA (i)	No	Yes	Yes	Required
FICE	No	Yes	Yes	Required
FICE	No	No	Yes	Not Required
<u>FI</u> CE	No	Yes (ii)	No	Required
i. SEA	includes free	trade zone and	bonded log	istic parks.
ii. FICE		goods from Ch	-	



	Classification of imported goods under PRC customs law	
	Types of goods	Customs procedure
1	General goods	General
2	Bonded goods	Special
3	Tax-exempt goods	Special
4	Temporarily imported goods	Special
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(Customs proced	dures
	General customs procedure	Special customs procedure
1	None	Pre-importation approval and record filing
2	2 Importation formality	Importation formality *
3	8 None	Post-importation Supervision
*	Duty and VAT not colle	ected

Customs formality (General goods)

- 1. Import Declaration
- 2. Documents examination
- 3. On the spot physical inspection
- 4. Levy of import duty and VAT
- 5. Release

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Computation of import duty and VAT (general goods)

- 1. Import duty rate : the date the Chinese customs accept the declaration for the import goods
- 2. Date of exchange rate: the date for the applicable tariff rate
- 3. Exchange rate: the base rate the PBOC announces on the Wednesday in the third week of the preceding month

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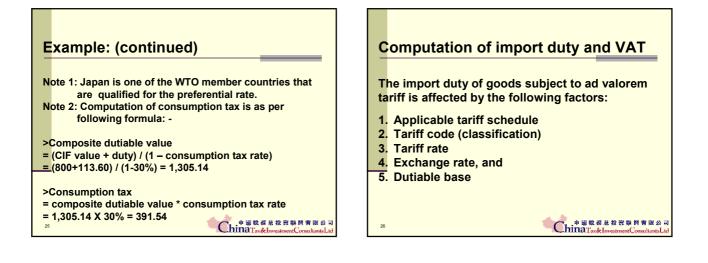
C	omputation mode	s:
1	CIF value x duty rate	Duty is levied by the value of import (ad valorem)
2	Import qty x rate per unit	Duty is levied by the quantity of import
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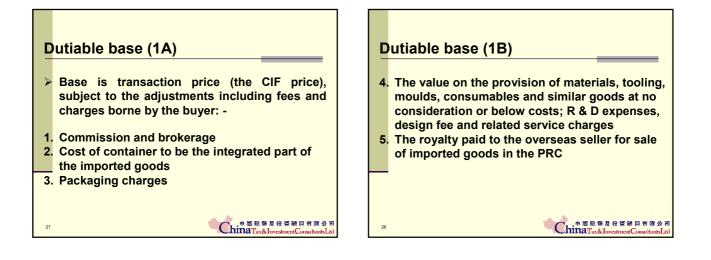
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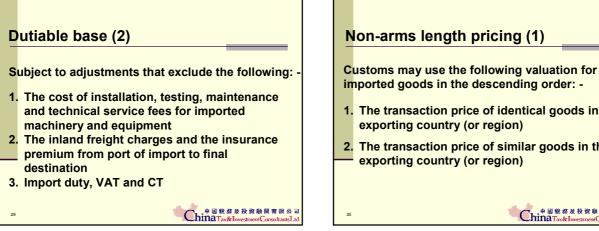
E	xample:
>	The CIF value of a set of lipsticks (HS code 33041000) from Japan is US\$100 (exchange rate 1:8)
>	Importation of cosmetics is subject to VAT at 17%, and Consumption tax (CT) at 30%
~	Customs duty, Import VAT and CT will be computed as follows: -
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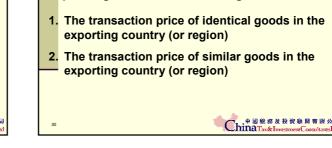
Ex	am	ple: (continu	ied)	
	1	Duty = CIF value x duty rate	(US\$100 x 8) x 14.2% = RMB113.60	Preferential tariff rate is 14.2 %. (Note 1)
	2	VAT = (CIF value + duty + CT) x VAT rate	(800 + 113.60 + 391.54) x 17% = RMB221.87	Computation of CT as per below (Note 2)
	3	Total = Duty, VAT and CT	113.60 + 221.87 + 391.54 = RMB727.01	
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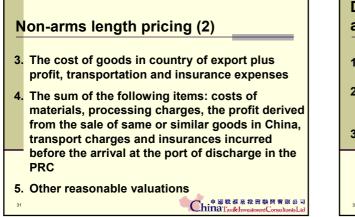
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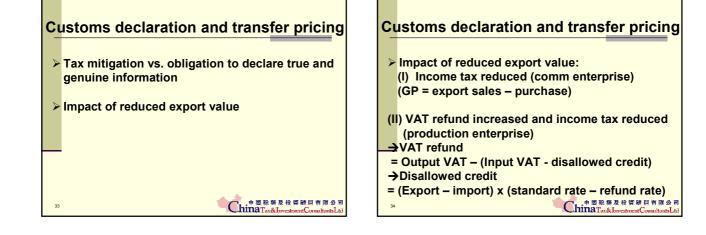


Different components between accounting cost and customs valuation

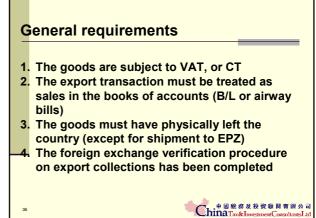
- 1. Customs valuation includes payment for use of intangible rights
- 2. Customs valuation excludes payment for import duty and VAT, and provision of services (installation and testing charges, etc)

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3. Adopting different exchange rate







Specific requirement for individual exporter

- 1. The goods it buys for purpose of export should not fall outside the scope of its business
- 2. The exporter should be a general taxpayer
- 3. The exporter needs to submit the application for export rebates within 90 days of the export declaration and produce prescribed documents to the tax bureau
- If the exporter cannot do so before the 15th day of the following month, all the export sales are deemed to be local sales

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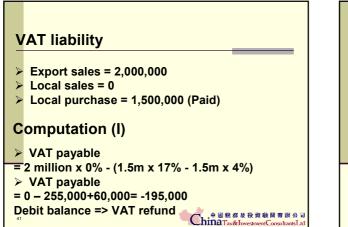
Documents for VAT export refund application:-

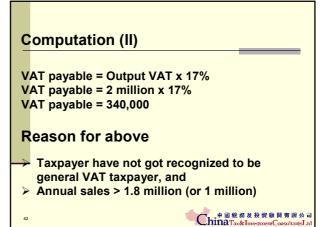
- 1. Special Invoice for export goods
- 2. Customs declaration for export goods
- 3. Foreign exchange verification notes for export collections
- 4. Proof of settlement of export collections;
- 5. VAT Special invoice for purchase of export goods
- 6. Paid VAT demand notice
- 7. Appointment letter of export agent (if applicable)

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	Production enterprise	Commercial enterprise
Computation base	FOB value for export	Input VAT paid
Method	Exempt-offset- refund	Pay-first-and- refund-later

v .	A I refund compl	utation (continued)
1	Refund rate	VAT refundable amount
	= standard rate (17%)	= Amount of purchase x refund rate
2	Refund rate < std rate	VAT refundable amount
	(17%)	= Input VAT paid on export – amount not refundable
= i Ar	out VAT on export ourchase amount x stand nount not refundable ourchase amount x (stan	



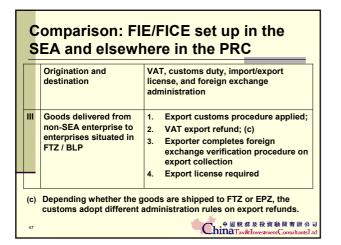


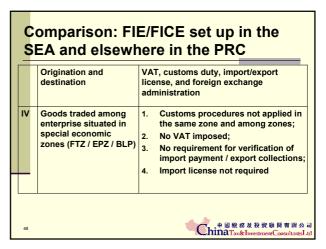
Entry modes Five entry modes to set up trading operations under the current PRC legal framework



_	Origination and destination	ewhere in the PRC VAT, customs duty, import/export license, and foreign exchange administration
I	Goods shipped between SEA and destination in other countries (regions)	 Import/export procedures applied No duty imposed, No VAT export refunds (a) No requirement for verification on import payment and export collections Import / export license not required
		hat physically leave the FTZ for destinations in s) are eligible for VAT export refunds.

Comparison: FIE/FICE set up in the SEA and elsewhere in the PRC			
		Origination and destination	VAT, customs duty, import/export license, and foreign exchange administration
11		Goods delivered from SEA to enterprise situated elsewhere in the PRC	 Import customs procedure applied Import duty and VAT; (b) Importer completes verification procedure for import payment Import license required
(b) Depending whether finished goods are shipped from the FTZ or from the EPZ to enterprises situated elsewhere in the PRC, different tax rules shall be applied on imported components.			





Comparison: a FICE and an FIE expanding its business scope to trading

- 1. The sales mix: Trading revenue < 30% of the total revenue earned from production and trading activities
- 2. In case of 2-plus-3 income tax concession, trade income will automatically receive the same concession
- 3. For export-oriented enterprise, additional sales in the domestic market may have unfavorable income tax impact
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Comparison: Setting up a FICE or a branch (1)

Legal requirements

- 1. Head office has to pay up all the capital
- 2. Head office must have passed the annual examination
- 3. Scope of business for the branch cannot exceed that for the head office
- The branch is required to apply for a branch business license, national tax and local tax registrations

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Comparison: Setting up a FICE or a branch (2)

Business consideration for the branch to be located in the same city or other cities

- 1. Whether the H.O. or branch will sign up the sales contract
- 2. Whether Branch will sell goods in own name or as commission agent
- 3. Whether Branch will collect cash or cheque payments
- 4. Whether Branch will be required to issue tax invoices
- 5. Whether Branch will carry on retail business " China Hata 社會議論 國金司 China Taxkinestenet Constantial Ad

Comparison: Setting up a FICE or a branch (3)

- 1. PRC legal rules on the use of tax invoices across cities
- 2. Blank tax invoices: to be carried by hand or delivered by any means of transportation
- From one province (municipality) to another (municipality) → Disallowed
- From city to city in same province → Must obtain administrative approval from the tax authority

Comparison: Setting up a FICE or a branch (4)

Transfer pricing rules for goods sold between HO and branch

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- HO (GZ)=> imported goods => Branch (Su Zhou) => domestic buyer
- 1. I/E rights vs. contractual rights
- 2. Avg. selling price for similar goods Composite price for VAT computation purposes = Cost x (1 + 10%)

VAT Planning - domestic transactions VAT liability and terms of payment

VAT obligation arises

- Cash sales : receipt of sale money
- Credit sales : payment date by agreement

VAT planning – domestic transactions

Deferral of VAT obligations

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Credit sales : Pmt date by agreement
 Consigned sales : receipt of statement of consigned sales

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