

Tax in China

Dezan Shira & Associates' tax practice specifically focuses on providing advice to foreign companies in relation to their investments and business activities in Asia. Dezan Shira has dedicated PRC tax, Hong Kong tax, international tax as well as transfer pricing teams which are highly experienced and specialized. These departments are experts in their respective fields and have a strong working relationship with the tax authorities at all levels. The team members are able to assist you with multiple aspects associated with your company's entire life cycle including entry, financing, operations, reorganisation/M&A, profit repatriation and exit.

How Dezan Shira & Associates can help

The purpose of this brochure is to provide a general summary of some of the key tax issues businesses face throughout the different phases of their operations. We have also included an overview of the types of services that Dezan Shira can provide in relation to these.

| Phase | Key issues | How Dezan Shira & Associates can help |
|----------------|--|--|
| 1 Entry | <ul style="list-style-type: none"> • Where should you invest in China? • What type of legal entity presence should you establish in China, e.g., representative office, branch, subsidiary, or partnership? • What direct and indirect taxes will you need to pay in China? • What tax incentives are available to you and how do you qualify for these? • Are there any tax planning opportunities available to reduce your PRC tax liability and to minimise withholding tax leakage? • How do you structure and finance your investment in China? | <ul style="list-style-type: none"> • Assist with location analysis and help you identify potential investment sites in China. • Provide a summary of your companies PRC tax implications (CIT, VAT, other taxes etc.) • Assess whether or not there are any tax incentives which your company can benefit from, and what is required from a procedural standpoint to access these • Advise on the appropriate legal entity presence and holding structure for your company(s) in China • Advise on the formation procedures and process to establish the local presence • Advise you on potential access to tax treaties |
| 2 Financing | <ul style="list-style-type: none"> • What is the tax cost in using different funding methods such as equity, related-party loan or third-party loans? • Should you establish a finance hub/entity in China or in another location such as Hong Kong or Singapore? | <ul style="list-style-type: none"> • Advise on potential cash pooling mechanism to better utilise excess cash within the group • Explain the advantages and disadvantages of funding your China operations through an offshore entity • Provide an outline of potential withholding taxes with respect to interest payments on related party as well as third party loans • Advise how to comply with the thin capitalization rules |
| 3 Operation | <ul style="list-style-type: none"> • What are your ongoing PRC tax compliance and reporting obligations? • Are you aware of new changes in legislation and policy? • Do you have procedures in place to mitigate the risk of creating a permanent establishment in China? • Are you aware of "hot topics" such as transfer pricing? • What is your VAT liability? • Are you prepared for a potential tax audit? | <ul style="list-style-type: none"> • Assist you in reviewing, preparing and submitting your annual tax returns • Keep you up to date and alert you to any new tax laws and policies which may affect your business • Help you to develop protocols and procedures to mitigate and reduce your permanent establishment risk • Provide you with various tax advice on an as-needed basis in respect to topics such as CIT, VAT etc. • Assist you with your related party disclosures which are required to be submitted along with the annual tax return as well as reviewing your related party transactions to see whether they are in compliance with arm's length principle • Prepare an appropriate tax audit defence strategy as well as coordinate and negotiate with the relevant tax authorities on your behalf |



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|--|---|---|
| 4 Internal re-organisation / M&A | <ul style="list-style-type: none"> • What is the best way to perform an internal restructure/M&A transaction? Asset or share deal? • What are the tax implications arising from the restructure? • Are there any incentives or tax deferral options available to you? • Are tax incentives and tax attributes (e.g., net operating losses) still valid or available after the restructuring? • What regulatory as well as tax office approvals are required to internally reorganize? • What are the key considerations that the company should be mindful of subsequent to the restructure? | <ul style="list-style-type: none"> • Provide you with the pros and cons of both an asset as well as a share deal • Assess the potential CIT implications arising from the proposed restructure • Advise on the appropriate types of reorganisation that may be pursued, and the corresponding requirements that need to be satisfied to access tax deferral treatment • Advise on the direct and indirect tax implications of the restructuring and seek assurance from the Chinese tax authorities in advance on the tax treatment of the reorganisation • Advise on the regulatory procedures for completing the restructure • Post-deal integration advice and identification of any subsequent planning opportunities |
| 5 Profit repatriation | <ul style="list-style-type: none"> • What profit repatriation methods are available to me? • Are there ways to reduce any tax costs associated with profit repatriation? • Can I access preferential tax treaty provisions? What conditions must I satisfy? • What are the procedural steps and compliance requirements involved to 1) access tax treaties and 2) remit profits overseas? | <ul style="list-style-type: none"> • Provide advice on effective and efficient profit repatriation methods such as dividends, royalties, service fees etc. • Advise how to build up commercial substance in an offshore holding company to satisfy the beneficial ownership requirements for tax treaty qualification • Advise on the procedures for seeking treaty benefits and assist on preparing treaty application packages • Assist with seeking clearance from the Chinese tax and foreign exchange authorities on outbound remittances |
| 6 Exit | <ul style="list-style-type: none"> • How should you exit the Chinese investment? Asset sale versus share sale? • With share sale, is it best to directly or indirectly sell the shares? • If an indirect transfer is performed, are there any reporting or taxation obligations I should be aware of? • If a direct transfer is performed, does a tax treaty potentially provide some tax relief? • What are the tax implications arising from a direct or indirect sale of the China company's assets and/ or share? • What is the difference between a tax de-registration and a tax-relocation? • How do I liquidate the company? | <ul style="list-style-type: none"> • Advise on an appropriate exit strategy and outline the potential implications • Provide advice on the tax implications arising from a direct versus an indirect share sale • Outline the requirements that need to be satisfied to access any relevant tax treaties. If relief is available, apply for that relief • Assist with both tax deregistration's as well as relocations from tax, regulatory and legal perspectives • In the case of indirect transfer, advise how to build up substance in an intermediate holding company outside China, assist with preparing the required reporting package, and conduct subsequent negotiations with the tax authorities • Advise on the Chinese tax and regulatory issues upon liquidation of the local entity |

Please note that the abovementioned services are intended to highlight the range of services we currently provide our clients. We would be pleased to have a conversation with you to hear about your particular needs and requirements. From there, we can prepare a precise scope of work and fee proposal taking these into account.

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> Tax Advisory

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