

Client Case Study (China)

Mid-Cap – High Tech

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|-----------------|-------------------------|--------------------|------------------------|
| • Industry: | SaaS for Automotive | • Global offices: | 4 worldwide |
| • Revenue: | USD 150-250 million | • Global staff: | 201-500 employees |
| • Ownership: | Privately Held | • Presence: | Americas, Europe, Asia |
| • Headquarters: | USA, CA, Silicon Valley | • DSA client date: | 2009 to present |

Background

Founded in California, US, our client is a leading global provider of SaaS-based solutions to the services sector of the automotive industry, including the world's leading OE companies, through the supply of its online parts selling systems. It also provides data analysis and information research for the automotive and lubricant industries.

Our client sought to establish its operations in Shanghai due to rapidly growing demand for its services in China, lower cost of production, and to leverage advanced China automotive components supply chains.

Client issues & challenges

Our client had contacted us for advice on improving its business model, and to guide them any proposed changes. Our client had previously setup a Representative Office (RO) for the purpose of contacting clients, and to act as a liaison office between their clients in China and their own foreign overseas headquarters. The RO had initially helped our client to become established in China quickly, but as its number of employees, local market opportunities and expenses all increased, the RO structure began to constrain its capabilities, and its tax implications were growing significantly. Our client sought to identify the most optimized structure to “upgrade” its model with minimal risk to HR, legal or compliance, and no impact to its operations.

Solutions and outcomes

Dezan Shira & Associates was initially engaged to provide legal and financial strategic advisory and review of their existing business model. In this process, a new legal entity was identified by our team which would position our client to reduce its tax burden, among other advantages that it sought. Our tax team found that by converting from an RO to a Wholly Foreign Owned Enterprise (“WFOE”), our client could reduce its taxes by nearly 30 percent. The new structure also permitted our client to engage in commercial activities and receive payments in China. The client decided to execute on this plan.

Throughout the execution of the assignment, our role entailed a blend of not only financial, tax and legal restructuring, but also important considerations for the legal transferring of our client's China employees. We provided detailed legal and HR guidance for the transfer of the employees to the new structure. Our legal and HR teams reviewed the client's existing employee labor contracts to define the employer's liabilities, and as a result, identified the best strategy for labor negotiation with the employees. They helped to implement an improved supporting HR policy and documentation framework for the new entity. Our legal team detailed a plan for the official announcement of the new entity to new employees, and our HR team then assisted with successful employee negotiations to complete their transfer to the new entity.

Once the new structure was in place, and the employees successfully transferred, our client engaged us for ongoing services. Our financial and HR teams provide overall accounting, banking, tax compliance, payroll and HR administration support for our client's China WFOE on an ongoing basis, enabling them to continue to focus on their core business and markets.

Outcomes for the Client

- Optimized business model for China operations, reducing tax implications;
- New legal entity permitting expanded commercial activities in China;
- All employees transferred under the conversion process without labor disputes or severance payments;
- Initial set up on the financial and HR operations for the new WFOE; and,
- Ongoing maintenance for Monthly and Annual compliance.

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Dezan Shira Services

- Strategic Legal Advisory
- Legal Incorporation Service
- Tax Advisory
- Corporate Accounting
- Regular Compliance Review
- Payroll and HR Administration

Involved Specialists and Advisors

- Manager, Legal Service Advisory, E. China
- Sr. Associate, Legal Services, E.China
- Sr. Associate, Tax Advisory, E. China
- Manager, Corporate Accounting, E. China
- Sr. Manager, Corporate Accounting, E. China
- Asst. Manager, Corporate HR Admin. & Payroll