

Advantages & Disadvantages of WFOE

Advantages

I. Independent operation

Independently carry out parent Company's global strategy, with no consideration of Chinese partner factors since its wholly owned nature.

II. Wide range of business scopes

Run the business in the name of the Company, unlike the limited Representatives offices, can receive revenue in RMB, and issue RMB official Fapiao to customers.

III. Lower operational cost

- Rental expense

Grade A office buildings are comparatively a little bit expensive than other business properties which may increase your cost for running the office. For WFOE, there is no such kind of requirement.

- Taxes

Although no income can be made by ROs, they shall apply the cost-plus method to calculate the business tax & corporate income tax. The income is calculated by the formula: RO monthly expenses/(1-10%-5%), business tax =the deemed income*5%, corporate income tax=the deemed income*10%*33%. This means, no matter you earn money or not in China as an RO, you have to pay business & corporate income tax with the cost approximately 10% of the total monthly expenses.

For WFOE, it seems more fair to calculate business tax based on your turnover, while for corporate income tax, if the expenses and costs do not exceed your turnover, no tax will be charged.

- Employment cost

ROs have to hire local staff via an organization known as FESCO or some other payroll agent. These agents can help you to handle the welfare & payroll to employees, however, with an monthly agent service fee, usually RMB 250~350 yuan per staff per month. For WFOE, you have the right to sign directly the labor contract with your employees which can save the agent fee of FESCO, in case you don't want to offer integrated benefit to your staff presently.

IV. Intellectual property & technology know-how guarantee

Get intellectual property & technology know-how guarantee.

Disadvantages

I. Capital requirements

There will be minimum capital requirements to setup a WFOE according to different industries. Normal, 15% percent of the total investment should be injected within one month after you get the business license, the left 85% should be settled within one year.

II. Complicated application process for registration

The registration process is more complicated compared with RO. SAIC, SMERT, PSB...more government departments will be involved and more sheets you have to fulfill. Usually, the whole procedure is longer for around 2 months.

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Advantages & Disadvantages of RO & WFOE (TABLE)

	Requirements for registration			Business scope		Running cost	
	registered capital	rental	registration period	business scope	invoicing	staff employment	Taxes
RO	None	Grade A building	1~2 months	1. Liaisons representing the parent company within the company's business scope including facilitating the trades between parent company and the local suppliers, QC facilitation or monitoring purchasing activities, marketing and sales administration for sales conducted between China and your parent company, administration for group activities elsewhere in China. 2. Parent company's products marketing and promotions. 3. Conducting marketing research & academic communications.	cannot issue invoice	should via FESCO or other agent	although no income, business tax & corporate income tax should be paid with approximately 10% of total monthly expenses
WFOE	from US\$65,000	business property	3~4.5 months	Can do trading, consulting, manufacturing... any scopes listed in the Catalogue For The Guidance Of Foreign Investments Industries in the name of the prospective company.	can issue different kinds of invoices (Fapiaos) according to the different business scopes	should not via FESCO or agent	for different companies with different scopes, should declare different kinds of taxes. However, the corporate income tax should be calculated by the actual net income, not estimated by expenses.

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