

Advantages & Disadvantages of Representative Office

Advantages

I. Minimum registration outlay

Registered a representative offices (RO) can help you get a legal entity identification in China for minimal outlay. The registration government charge is most inexpensive while there will be no paid-in-capital requirement.

II. Lowest threshold with fastest application process for registration

The threshold is the lowest with following requirements:

- An oversea parent company with legal business registration certificate and good financial reputation.
- Rent a grade A office building for at least one year
- Authorize a Chief Representative

Disadvantages

I. Restricted business scopes

Government limited the permissible business activities of RO as follows:

- Liaisons representing the parent company within the company's business scope including facilitating the trades between parent company and the local suppliers, quality control, or monitoring purchasing activities, marketing and sales administration for sales conducted between China and your parent company, administration for group activities elsewhere in China.
- Parent company's products marketing and promotions in China.
- Conducting marketing research & academic communications.

In summary, ROs can only do the liaisons work in the name of parent company, they are not allowed to receive income, issue invoices and sign trading contracts directly.

II. Higher office running 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.

- Taxes

Although no income can be made by ROs, they must register with both state and local tax bureaus. RO engaged in trading, agency services, advertising, tourism and other types of related service 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.

ROs engaged in business advisory, legal, tax, accounting or other types of consultancy services would use the actual method to file tax returns. ROs whose activities do not belong to these two categories shall pay taxes according to the actual revenues generated, including fees received from head office. The tax bureau further defines which activities are taxable and which are not.

- Employment cost

ROs have to hire local staff via an organization known as FESCO or some other payroll agent. These agent 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.

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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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