

Tax Outline of Representative Office

Representative Offices cannot do trade directly, therefore with no income. However, they are still obligated to declare and pay the following taxes:

1. Business Tax & Corporate Income Tax

According to the regulation [2003] No.28 issued by the Tax Bureau in year 2003, there are three kinds of tax calculation method for respective Representative Offices.

Actual Method

Tax formula:

Business tax = actual commission/charges \times 5%

Corporate income tax = (turnover-cost/expenses) \times 33%

Applicable to the representative offices engaged in the consulting services of business, law, taxes, accounting, auditing listed in the regulation of No.165 issued by the State Administration of Taxation in 1996, Article No.1, paragraph No.1, item No.2. The above listed offices should establish complete accounting books, correctly record and calculate the turnover, taxable incomes, and make the tax declarations according to actual figures.

Cost-Plus Method

If Representative Offices take part in taxable activities but cannot confirm the related income, they should use the cost-plus method to file tax returns. According to the regulation No.200 issued by the Finance & Tax Bureau in 1985, the deemed income tax rate should be 10% while the business tax rate should be 5%.

Tax formula:

Business tax = actual operational expenses / (1-10%-5%) \times 5%

Corporate income tax = actual operational expenses / (1-10%-5%) \times 10% \times 33%

Applicable to the representative offices engaged in the trading, agency services, advertising, tourism and other types of related service listed in the regulation of No.165 issued by the State Administration of Taxation in 1996, Article No.1, paragraph No.1, items No.1, No.4 No.5. The above listed representative offices mainly carry out businesses by the requests from headquarters without directly signing contracts or agreements with the service-receivers, while the related income are usually collected by headquarters. They should therefore apply to the cost-plus method to calculate the revenue based on the running expenses of RO, which will be the basis of levy. **This is currently the most common method for RO tax filing.**

Deemed income Method

Tax formula:

Business tax = actual commission/charges \times 5%

Corporate income tax = (turnover-cost/expenses) \times 33%

Applicable to the representative offices whose activities do not belong to these two categories listed in the regulation of No.165 issued by the State Administration of Taxation in 1996, Article No.1, paragraph No.1. These offices shall pay taxes according to the actual revenues generated, including fees received from

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head office. The tax bureau further defines which activities are taxable and which are not. If there is no revenue in current year, ROs should report annual operations to the tax bureau within one month after the end of the year.

Tax exempted

If the head office of the RO is a foreign government or international organization, a non-profit or civil organization, then such ROs can apply for an exemption.

2. Individual Income Tax

Chief Representative and General Representatives should pay the individual income tax to tax bureau based on their monthly income. No matter you get money from China or not, you have to submit a monthly income verification letter with your Company letter head to Tax Bureau. Tax officers will not accept a foreign representative with no pay in China.

Formula:

Taxable income = Monthly wages and salaries – 1600 yuan – Additional deduction (3200 yuan) – Other specified items;

Individual income tax payable = Taxable income × Applicable rate – Quick deduction

Individual Income Tax Rates (Applicable to wage, salary income)

Grade	Monthly Taxable Income	Tax Rate (%)	Quick Deduction
1	500yuan or less	5	0
2	That part of income over 500 but not over 2,000yuan	10	25
3	That part of income over 2,000 but not over 5,000yuan	15	125
4	That part of income over 5,000 but not over 20,000yuan	20	375
5	That part of income over 20,000 but not over 40,000yuan	25	1,375
6	That part of income over 40,000 but not over 60,000yuan	30	3,375
7	That part of income over 60,000 but not over 80,000yuan	35	6,375
8	That part of income over 80,000 but not over 100,000yuan	40	10,375
9	That part of income over 100,000yuan	45	15,375

Tax deductions and exemptions

The following items may be free from the Individual Income Tax:

Income earned by the diplomatic agents(including ambassadors, ministers, charged' affaires, and other staff of embassy with diplomatic title) and consular officers and other personnel in the embassies and consulates in China, who are exempt from tax under the provisions of the relevant laws of China.

The following items are provisionally exempt from Individual Income Tax:

1. The wages and salaries earned by foreign experts which are exempt from tax in accordance with the regulations of the State (such as the workers directly dispatched to China by the World Bank according to the WB loan agreement, the worker directly dispatched by UN to China, the workers dispatched to China by assisting countries for the assistance program, the experts coming to work in China but paid by foreign sources).
2. The house allowances, meal allowances, removal compensation, laundry allowance obtained for

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foreigners in non – cash form or in reimbursement, the relative visit allowance, language training allowance and children education allowance and the dividends and bonus obtained from the enterprises with foreign investment.



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