

## TRADING COMPANY IN CHINA

Since beginning of year 2006, the Central government has opened its investment policy to allow foreign investors to set up its own trading company in the Mainland. Before that, the entry requirement for establishing trading company is very high with exception of entities in Free Trade Zone. It is now completely open for foreign investors to engage in direct trading business in the Mainland China. A Wholly Foreign Owned Enterprise (WFOE) engaged in trading business might apply for its own import and export licence, Value-Added Tax licence, Foreign Exchange licence and so on. Clearly, there is not much difference between a WFOE and a domestic trading company in China except for capital requirement. Following MNC, even family business foreign investors are attempting to penetrate the China market for profit these days.

### **Entry requirement**

As laid down by PRC company law, capital required for company formation is only RMB30,000. In practice, we find an average minimum is around USD200,000, varied on locations. Big city like Shanghai might require more than that. capital investment for a trading company is usually by way of cash injection. When deciding the amount of capital requirement, it is always advisable to plan ahead the actual working capital requirement for initial start off of the business to cover at least rental commitment, operating costs, building up inventory and so on.

### **Taxation**

For sales of goods, a trading WFOE is subject to Value Added Tax (VAT). VAT applies to all enterprises and individuals engaged in sales of goods, provision of processing, repairs and replacement services, and the importation of goods into China. General VAT rate is 17%, but necessities goods are taxed at 13%. VAT payable or refundable is based on output VAT (for Sales) minus input VAT (for Purchases). Generally, there is no VAT payable for export. A trading WFOE is also subject to corporate income tax, incentives on corporate income tax is normally available to high-tech production industry but not trading company.