

## REPRESENTATIVE OFFICE IN CHINA

**Representative Office**, the most simplest form of foreign permanent establishment in China. The entry requirement for representative office is very low. It requires the foreign entity to prove its legal status by public notarization of Chinese embassy or appointed agent, and to show its financial capability for establishing a representative office in China. However, the activities and operation permitted for a RO in China is very restrictive as well. It is easy to find MNC to form their own RO in China to promote their products to PRC buyers, source goods from China, do market research, engage a team to carry out quality control for overseas buyers, liaise with local vendors and so on. RO is however not permitted to engage in direct business operation in China, trade of goods, earn direct income from China, and even employ its staffs directly in China.

**Duration of RO** is normally one year but not more than two years. Re-registration of RO is required by the expiry of duration.

**Staff Employment** : Since the RO by itself is not a legal entity in China, it may only engage its staffs by hiring an intermediate local employment agent, called Foreign Service Company (FESCO). It is costly to maintain a RO with many staffs employed, because the fee payable to FESCO is often based on head count on monthly basis. RO being the employer is required to report, withhold and pay individual income tax on behalf of its staffs. A rep office is restricted to accommodate four expatriates working permit.

**Taxation** : As RO is not allowed to do direct business in China, the taxation imposable to RO is largely computed on the operating costs incurred by RO. Tax exemption for RO only happens on very rare circumstances. The effective tax rate is approximately 10% on operating costs of the RO. In particular, Business Tax, Corporate Income Tax, Individual Income Tax and incidental taxes are payable to tax authorities on monthly or quarterly basis depending on local tax practice.