Plan ahead: getting your firm ready for 2020

What changes in China will affect your business in the coming year?

The end of the year is a time to review the past year and plan ahead for the next 12 months. This is not about our typical well-intended good resolutions like eating healthier or finally giving up smoking in the new year. The point here is to ensure that your company is and remains in the best possible position to do business in China, and fully compliant at the same time. Ecovis Beijing will help you to end the year with your books in order, your financial planning well underway and your processes well set-up and running smoothly.

Corporate Social Credit System

The Corporate Social Credit System is a comprehensive digital system of several topic-specific ratings as well as compliance reports. This system affects all areas and business activities of a company in China. First announced by the Chinese government in 2014, and with steady progress since then, the roll-out is expected to take place in 2020. Negative ratings pose significant business risks. You can address them in time with our Internal Control Review. Contact us for more information.

HR Health Check

Despite the importance of human resources for running any firm successfully, we often lack the time and resources to optimize our internal HR processes. The same goes for the documentation and templates we use day in, day out. That's why we offer our HR health check: In three easy steps, including an individual consultation, a review of your documentation and your processes, we will set you on track to start the new year with your processes and documentation in order.

Foreign Investment Law

On January 1st, 2020, China's new Foreign Investment Law will take effect. It will replace three existing laws ruling company set-ups with foreign investment so far and will create the framework for foreign investment into China for the years to come. At the same time, it brings changes for many existing companies. The implementation regulations are still in the process of being finalized. Read our article on the draft implementation rules here and contact our legal team for an individual consultation.

Annual Audit

Get ready for your annual statutory audit in time. The deadline for the Annual Compliance Review in China is May 31st of each year. The law requires that the annual compliance review has to be done by a Certified Public Accountant (CPA) in order to ensure the compliance of all tax regulations. Get this time-consuming process started now and free up resources in the next year. Contact us for more information.

Based on your individual budget we will create tailor-made solutions for your firm. Please let us know how we can help you get ready for the year ahead!

For more information please contact:

Grace Shi
Grace.shi@ecovis-beijing.com
Phone: +86 10 6561 6609
Mobile: +86 186 1080 5757

Richard Hoffmann
Richard.hoffmann@ecovis-beijing.com
Phone: +49 6221 9985 639
Mobile: +49 173 6941292

Event report: China Business Day 2019

The China Business Day is an innovation and strategy event for manufacturers and retailers in the consumer goods industry and took place this year as a part of the EURO FINANCE WEEK. The China Business Day was opened by Andres G. Scholz, CEO of the dfv Euro Finance Group, and H.E. WU Ken, Ambassador of the People's Republic of China to Germany. Top-class representatives from the consumer goods industry and trade as well as selected China experts informed in case studies, discussions and workshops about economically relevant topics related to China.

The conference focused mainly on the conditions for German brand suppliers from industry and commerce to successfully enter the market, possible distribution channels via stationary and online trade, guaranteeing the long-term success of Western brands in China's dynamic market environment, as well as customers, consumer behaviour, consumer trends, communication and advertising in China. Prof. Dr. Dr. h.c. Hermann Simon gave a lecture on Hidden Champions Globalisation, Innovation, Digitalisation.

Ecovis Beijing also attended the China Business Day as an official partner. In a workshop Richard Hoffmann, consultant, lawyer and co-founder of Ecovis Beijing, introduced the Social Credit System and its impact on companies operating in China or in China Business. Rudolf Scharping, CEO and founder of RSBK AG, concluded the China Business Day with a speech on the status and perspectives of economic relations between Germany and China.

Closing a company in China – easier and faster!

Closing down a business in China has often been a tedious and time-consuming task. Some say "it is difficult to get in, and even more difficult to get out". However, following the nationwide initiatives of administrative reform and business environment optimization, many processes can be completed in a much shorter time now. Among the improvements for businesses are easier de-registration procedures, especially tax de-registration. Since 2017, the central government has pursued the reform of "streamlining administration, delegating power and strengthening administration, and improving services".

Tax de-registration now possible in 1 day

In the past, tax de-registration was the most time-consuming step of a company liquidation. It required the company to clear many levels of approvals within the tax authorities before the final tax de-registration approval could be granted. In reality, the tax de-registration easily took 6 months to even more than 1 year. But now the time needed is significantly reduced. According to a recent circular of the State Tax Administration, the tax de-registration approval shall be granted in the SAME day of application, if the company meets ALL the conditions below.

A Company applying for tax de-Registration

- is not under tax inspection, has no unpaid taxes (including overdue fines) and penalties, and;
- has cancelled the Fapiao invoice printing machine, and;
- is rated as Class A or Class B tax payer.

This means, as long as the company's tax compliance has been conducted properly, the above conditions can be easily met.Based on our recent experience closing companies in several cities in China, the above circular has been implemented nationwide.

Six weeks saved for business license de-registration

Besides the new tax de-registration circular, the registration authority is also promoting faster process time for the de-registration of business licenses for qualifying companies. Companies meeting ANY of the following conditions before applying for de-registration of the business license are qualified for a simplified de-registration process:

A Company applying for tax de-registration

- A company is not required to complete a record filing of liquidation committee with the registration authority any more. This can easily save about 2 weeks' time
- has cancelled the Fapiao invoice printing machine, and;
- is rated as Class A or Class B tax payer.

If any one of these conditions applies, the company is eligible to exit via the simplified de-registration procedure.

Under simplified de-registration process a number of process steps can be completed in a shorter time:

- A company is not required to complete a record filing of liquidation committee with the registration authority any more. This can easily save about 2 weeks' time.
- A company may choose to publish the liquidation announcement online in the National Enterprise Credit Information Publicity System for free. In the past, this had to be done in a newspaper at cost.
- Furthermore, the announcement period under simplified de-registration has been shortened from 45 calendar days to 20 calendar days in many cities (which is expected to be implanted nationwide very soon).

In total, 6 weeks can be saved for de-registration of business license.

Cash balance repatriation to shareholders takes longer

Unfortunately, not all news is good. The State Administration of Foreign Exchange (SAFE) delegated the examination responsibility of most foreign exchange transactions to the banks. They will impose harsh penalty on banks who do not perform thorough examinations. Furthermore, following the current downturn of Chinese Yuan, SAFE is tightening the cash outflow from China to overseas. To avoid any possible penalties from SAFE, most banks are now using multi-level approval schemes for outgoing foreign exchange transactions. As a result, the process time becomes longer than the past.

Based on our recent experience, the average processing time ranges from 1 months to 2 months. This time usually increases when the transaction amount is larger. In 2019 alone, Ecovis Beijing has worked on more than 10 company closing projects (including WFOE/ JV/ RO) in different parts of China. Based on our hands-on experience we are able to help our customers close their Chinese businesses faster. Contact us for more information.

Faked Fapiao-Invoices: How to Mitigate Fraud and Compliance Risks

Where the problems start: “per diem” travel allowances

Some positions in a company, e.g. in sales or technical support roles, require a significant amount of business travel. As a non-bureaucratic solution that also incentivizes employees, some companies apply a per diem to pay for employee travel expenses. It is a daily allowance of a certain amount of money paid to employees for expenses incurred while traveling for business, covering lodging, meals, taxi, and other ground transportation fees.

Unwanted consequences: a hidden compliance risk

In many instances, however, issues around compliance and fraud have also arisen from the per diem system. Very recently, a certain company (company A) was accused of non-compliant invoice usage, and as a result will probably receive a fine of 50,000 RMB. This is much higher than the amount claimed.

Employees of company A travel very often for business. The company thus applied a per diem, leaving a leeway that employees can hand in any legally valid invoice (Fapiao and special VAT Fapiao) to claim the per diem, and not only those actually incurred during the trip.

Several employees handed in special VAT Fapiaos from one particular issuer, a hotel. It is worth noting that those invoices were validated through the regular procedure without problems. Company A was therefore able to claim a VAT input tax deduction, which lowered its own tax burden. Soon after, the supplier that had issued the invoices suddenly disappeared without paying any taxes.

This prompted the tax authorities to start an investigation on the case. They found company A had incentives of tax fraud as it was able to claim a VAT input credit deduction based on those non-compliant invoices. Consequently, company A is facing three undesirable consequences:

1. Receiving a fine up to 50,000 RMB as a penalty.
2. Degraded from B Level to C Level in the tax credit guide.
3. Most likely affected in the Corporate Social Credit System.

Eliminating the problem at the root: practices to avoid

This example is not rare, therefore, it is important for companies to look into the travel expenses management system to see whether there are potential risks. The following practices might create a compliance risk for your company, leaving you vulnerable to fraud:

1. “Per diem” allowance payments to employees via expense reimbursements, not based on the actually incurred expenses.

2. Reimbursements without original receipts/VAT invoices or replaced by other invoices. This kind of expenses cannot be deducted against CIT according to Chinese tax law and will bring the company financial/tax risks.
3. Fake VAT invoices reimbursements and expenses. Those expenses cannot be deducted against CIT and will likely result in tax investigations, potentially with penalties.

Main takeaways and remedies

Clearly, giving employees flexibility on travel expenses repayment by using a per diem may lead to a compliance risk which is not obvious at first sight. It is even less detectable without a regular review of a companies' financial status. ECOVIS Beijing can support your firm, as we provide a wide range of services to help our clients mitigate fraud and compliance risks, such as our Financial Health Check, Internal Control Review, and our services related to the newly introduced Corporate Social Credit System. Please feel free to contact us for more information and an initial consultation addressing your specific concerns.

The New Silkroad – a future project for the German economy?

There are many critical voices internationally about the New Silk Road, but if you take a closer look at the Belt-and-Road Initiative (BRI), as it has been called in China since 2013, there are many opportunities and development possibilities. It is worth taking a closer look at which German industries could benefit from it in the future.

The fact that the New Silk Road is named that after the historical one is probably undisputed. Less well known, however, is that in the 19th century a certain Mr. Richthofen actually meant several routes and spoke of several Silk Roads, when he created the now common name. Even today, the modern connection between the Middle Kingdom and the rest of the world has several routes, namely the land connection (Belt) and the maritime silk road (Road) to Africa and Europe. Those who followed the last Belt-and-Road-Forum in Beijing more closely will have noticed that soon Latin America will also be connected to the road.

Even though the sea route to North America is becoming increasingly stormy in view of the ongoing trade war between the USA and China, the trade volume on the Belt and Road Initiative is not decreasing, but rather increasing slightly. On the one hand, the trade war and its consequences are problematic because they force the Chinese side to focus its investments on domestic companies and the national market. On the other hand, China does not want to reduce its production capacities and must look for new trading partners abroad. And this is not only about the stability of its own economy, but also about the necessary exchange of information and knowledge in order to advance its internal development. This is a great opportunity for the other countries and especially for the German economy. Although the volume of Chinese investment abroad has fallen significantly since the beginning of the trade war, this does not mean that the time for development is over. The opposite is the case.

So China is not thrown out of its balance and is reorienting itself. Chinese mobile phones have recently been delivered without North American programs. In cooperation with Russia, for example, the “Power of Siberia” gas pipeline has also been created within a short period of time. The uncertain export situation to the West has led Russia to secure new sales markets for itself.

Not to enter into these gaps and not to get involved could also be a serious omission from a development policy point of view. The new Silk Road leads across many countries where previous development policy strategies have failed and where they might be craving for investments. That is why Chinese offers are met with open arms. At the moment, Central Asian and African states are primarily developing transport infrastructure. It is only logical that large German companies from the transport sector and mechanical engineering are already involved in projects here.

As soon as the infrastructure is in place, other steps will follow. This is already being considered from a climate policy perspective and the Green Silk Road is being created. Investments e.g. in energy and environmental technology will follow and represent an opportunity for German industry. Where high technology is used, industry 4.0 is not far away. It would be a pity if Germany were to modernize its industry, but leave the new markets to an ever-evolving Chinese industry. To join forces with the BRI now and invest in the member countries of the initiative from the very beginning should ensure trust on the part of the recipients and an open positive attitude when awarding projects in the future. Even if many Chinese investments go to Chinese companies, it would probably be negligent not to be there.

Turning to less important trading partners does not mean, however, that Chinese companies will not continue to seek investment opportunities in Europe. In addition to all the political implications, BRI is primarily an economic expansion of Chinese sales markets. After all, it is also about having capital available for further development in the field of high technology. That is why Europe continues to be important for China and why investments are being sought in Germany. Of course, German and Chinese partners are not left alone in this process, but are supported competently.

Ecovis is not only represented in China, but in many countries participating in the BRI. Among them are nations such as Pakistan, Thailand, Indonesia in Asia and the United States.