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Where Your China Business Starts

Wholly Foreign Owned Enterprise (WFOE)

Introduction to WFOE

The Wholly Foreign Owned Enterprise (WFOE) is a Limited liability company wholly owned by the foreign investor(s). In China, WFOEs were originally conceived for encouraged manufacturing activities that were either export orientated or introduced advanced technology. However, with China's entry into the WTO, these conditions were gradually abolished and the WFOE is increasingly being used for service providers such as a variety of consulting and management services, software development and trading as well.
The registered capital of a Wholly Foreign Owned Enterprise (WFOE) should be subscribed and contributed solely by foreign investor(s). A WFOE does not include branches established in China by foreign enterprises and other foreign economic organizations. The Chinese Laws on WFOE do not have a clear definition of the term of "branches". The term of "branches" should include both the branch companies engaged in operational activities and representative offices, which are generally not engaged in direct business activities. Therefore, branches and representative offices set up by foreign enterprises are not WFOE.

Different types of WFOE

Following are different types of WFOE. Commonly,

1. If the WFOE only be allowed to manufacture here. we can say it's manufacture WFOE.
2. If the WFOE is allowed to do Consultancy & Service, we call them Consultancy Service WFOE.
3. If the WFOE is allowed to do Trading, Wholesale, Retail or Franchise in China, we call them Trading WFOE or FICE (Foreign-Invested Commercial Enterprise), you can check "FICE Registration" on the right menu for more information and details about FICE.

Advantages of WFOE

The advantages of establishing a WFOE, compared with other types of enterprises, include, but not limited to:

1. Independence and freedom to implement the worldwide strategies of its parent company without having to consider the involvement of the Chinese partner;
2. Ability to formally carry out business rather than just function as a representative office and being able to issue invoices to their customers in RMB and receive revenues in RMB;
3. Capability of converting RMB profits to US dollars for remittance to its parent company outside of China;
4. Protection of intellectual know-how and technology;
5. No requirement for Import / Export license for its own products;
6. Full control of human resources
7. Greater efficiency in operations, management and future development.

Business scope

One of the most important issues in WFOE application is business scope. Business scope needs to be defined and the WFOE can only conduct business within its approved business scope, which ultimately appears on the business license. Any amendments to the business scope require further application and approval. Inevitably, there is a negotiation with the approval authorities to approve as broad a business scope as is permitted. Generally business scope includes investment consulting, international economic consulting, trade information consulting, marketing and promotion consulting, corporate management consulting, technology consulting, manufacturing, etc. With China's entry into WTO, more and more business is open to WFOE especially in Trading, Wholesale and Retail business.

Registered and paid up capital

Registered Capital: USD$140,000 is a good idea for all kinds of WFOE, with USD$ 140,000 investment it's easy to get approved. Initial Paid-up would be 20% of the registered capital, the balance should be remitted within 2 years.
Registered capital is the amount that it's required to run the business until it can break even - the 'registered capital' is a guideline only. If you do looking for a minimum registered capital, for instance RMB 30,000 (which is impossible to establish a WFOE in China) this means you will run out of money pretty soon, which leads to increased costs in reapplying for permission to increase capital, additional licensing fees and renewals of business licenses and so on. The WFOE needs funding via it's registered capital until it's about to support itself from it's own cash flow.
However the amount of registered capital is dependent upon factors like Scope of Business and Location. In reality local authorities will review the feasibility study report (and check the lease contract) approve the investment on a case-by-case basis; reduced registered capital could be negotiated in some cases.
The minimum registered capital guides for various industries according to our practice in China, for instance Beijing, Shanghai, Guangzhou, Shenzhen are given below:

Consulting WFOE	RMB 100,000 ~ RMB 500,000
Service WFOE	RMB 100,000 ~ RMB 500,000
Hi-Tech WFOE	RMB 100,000 ~ RMB 500,000
Trading WFOE / FICE	RMB 500,000 ~ RMB 1 million
Catering WFOE	RMB 500,000 ~ RMB 1 million
Manufacturing WFOE	RMB 1 million or USD 140,000

GENERAL TAX INFORMATION

Since Jan. 2008, China's new corporate tax rates begins range from15% to 25%, the rate depends on the places where the company is registered and the industry that a company engaged. Please check the latest Corporate Income Tax Law of China. (Corporate Income Tax Law of China) All enterprises are required to report to the Tax Administration Department monthly, quarterly, annually. Path To China provides part time accountant service for our clients, you are welcome to contact us for more information.

ANNUAL AUDIT REPORT

Any limited companies in Shanghai should summit annual audit report to the relevant authorities. The annual cost is about RMB 6,000. Any company will be subject be to a fine if the Annual Audit Report is not submitted in a timely manner.

PROFIT REPATRIATION

China Government allows Foreign Invested Enterprises remit their profits out of the country and such remittances do not require the prior approval of the State Administration of Foreign Exchange (SAFE). Dividends cannot be distributed and repatriated to oversea if the losses of previous years have not been covered while dividends not distributed in previous years may be distributed together with those of the current year. Repatriating the Registered Capital to home countries is forbidden during the term of business operation.

TERMS AND TERMINATION

In China, terms of 15 to 30 years are typical for a manufacturing WFOE (although some may have a longer term). It is also possible to obtain extensions of the WFOE's duration. For projects in which the amount of investment is large, or the construction period is long and the return on investment low, projects producing sophisticated products using advanced or key technology provided by the foreign partner, or for projects producing internationally competitive products, the term of WFOE may be extended to 50 years. With special approval from the State Council, the term may be even longer than 50 years.
The WFOE may be terminated under certain conditions. For example, the inability of the WFOE to operate due to heavy losses, or in the occurrence of an event of force majeure, etc.