



# Getting paid for exports to China Challenges and issues in China

KPMG LLP

# Agenda

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- **Exportation of tangible goods to China**
- **Provision of services in China**
- **Exportation of intangibles to China**

# Exportation of tangible goods to China

## - Chinese customs and tax issue

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### Canadian company

For a Canadian company, if a transaction is purely an exportation of tangible goods (i.e. no services are included in the transaction), the Canadian company will not be subject to Customs Duty or taxes in China

The Canadian company is not responsible for the customs declarations in China

### Chinese importer

Normally, the Chinese importer should be subject to Customs Duty and import Value-Added Tax (“VAT”).

Under certain conditions, the Chinese importer may import the goods free of Customs Duty and import VAT.

The Chinese importer are responsible for the customs declarations in China.

# Exportation of tangible goods to China

## - Chinese foreign exchange issue

General documents required for the importer to make foreign exchange remittance are as follows:

- relevant import contract
- relevant invoice
- original customs declaration forms
- import Verification Statement issued
- other documents

Name of the importer on the above documents should be consistent.

Banks may need to confirm with Customs or State Administration for Foreign Exchange (“SAFE”) before selling foreign exchange to the importer.

SAFE or Bank will confirm with Customs on-line.

# Provision of services in China

## - Chinese customs and tax issue

### Canadian company

Generally, no Chinese Customs Duty and import Value-Added Tax issue.

The Canadian company should handle the following Chinese tax issues with caution:

- Permanent Establishment (“PE”) issue
- Chinese Business Tax issue
- Individual Income Tax issue relating to employees traveling to China

The Chinese taxes relating to the services provided in China, if any, are the responsibility of the service provider unless stated otherwise in the relevant contract

In China, a Chinese resident enterprise / PE has the responsibility to withhold Individual Income Tax.

# Provision of services in China

## - Chinese customs and tax issue (Con't)

### Chinese service recipient

The Chinese service recipient has the obligation to withhold and report the relevant taxes, if any, of the Canadian service provider to the Chinese tax authority.

### Other issues

The Canadian company can elect to report the relevant taxes to the tax authority by themselves.

For the Canadian service provider, the tax penalty could be as high as five times of the under-reported China taxes. For the Chinese service recipient, the tax penalty could be as high as three times of the under-withhold China taxes

A late payment interest of 0.05% per day may also apply to the service provider.

Importance of splitting Chinese onshore service and offshore service in the contract.

# Provision of services in China

## - Chinese foreign exchange issue

The Chinese service receiver is required to submit the following documents to the bank:

- relevant service contract
- relevant invoice
- tax clearance letter
- other documents

Name of the importer on the above documents should be consistent.

Banks may need to confirm with SAFE before selling foreign exchange to the service receiver.

# Exportation of intangibles to China

## - Chinese customs and tax issues

Intangibles discussed here include the licensing of patents, trademark, copy right and know how.

### Canadian company

Generally, no Custom Duty and import VAT issue (Under some circumstances, e.g. royalties relating to the exportation of tangible goods, Chinese Customs Duty and import VAT may also apply.)

Chinese Withholding Tax will apply.

Chinese Business Tax will apply most of the time. The Chinese Business Tax on the transfer of technology may be exempted.

### Chinese importer

Withholding obligation relating to the relevant taxes.

# Exportation of intangibles to China

## - Chinese customs and tax issues

The importer is required to submit the following documents to the bank:

- relevant service contract
- relevant invoice
- tax clearance letter
- relevant registration documents / certificate
- other documents

Name of the importer on the above documents should be consistent.

Banks may need to confirm with SAFE before selling foreign exchange to the Chinese importer.

For patent, trademark, and copy right, registration in China is generally required. For technologies, registration may also require in order to apply for exemption on Chinese Business Tax.

# Question & Answer

# Roger Di - Senior Tax Manager, China



**Roger Di** is a Senior Tax Manager in KPMG China's Beijing office and the leader of Industrial Manufacturing and Real Estate & Infrastructure Group.

Roger has extensive experience in advising foreign investment enterprises on various issues on regulatory, taxation and foreign exchange. He has worked with a number of Fortune 500 companies on establishing foreign investment enterprises, representation offices, planning tax-effective strategies, designing investment and operation structures. With 9 years of experience in assisting international companies in investing in China, Roger has an in-depth understanding of challenges and issues faced by foreign investors. He has also built strong relationships with senior government tax officials in different regions of China.

Prior to joining KPMG Beijing in 2003, Roger has worked for an international accounting firm in Southern China.

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# KPMG in China

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- **KPMG is committed to delivering insight and experience to help clients to achieve their business goals**

# China Practice of KPMG Canada

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- **Cross-functional service team**
- **Expertise in China business environment**
- **Serving two-way business activities**
  - Canadian businesses going to China
  - Inbound projects from China
- **Representatives throughout Canada**
- **Closely working with KPMG China**

# Please Contact Us

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# Thank you