

The Latest Insight

Beijing Government: New Rules to Encourage Multinational Corporations to Establish Regional Headquarters in Beijing

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In May 2009, the Beijing Government issued a revised regulation in respect of encouraging Multinational Corporations (MNCs) to establish regional headquarters (RHQs) in Beijing. Shortly after this in June 2009, detailed regulations were jointly issued by eight municipal authorities in Beijing. According to the regulations, it also applies to MNCs, which established in Taiwan, Hong Kong and Macao.

Considering RHQs can increase tax revenues and bring employment opportunities to a regional economy, many cities in China are willing to encourage MNCs to establish RHQs. Interestingly the Shanghai Government issued similar regulations to encourage MNCs to establish RHQs in Shanghai in the middle of 2008. The Beijing Government's issuance of these regulations could be viewed as a response measure.

The regulation and the subsequent detailed regulations provide a number of preferential policies. According to these regulations, the Beijing Government will provide financial support and subsidies to RHQs and their senior executives if they meet certain requirements. The Beijing Government may also provide flexible Visa application policies to foreign employees of RHQs and to their families.

The main contents of the regulations are as below:

RHQ recognition criteria

The Beijing Municipal Commission of Commerce (BMCC) is responsible for RHQ recognition. According to the regulations, RHQs which meet one of the requirements mentioned below could be recognized with the recognition process requiring less than ten days.

1. A Foreign Investment Holding Company, which is approved by the Ministry of Commerce.
2. A Foreign Investment Management Company (FIMC), which meets the following requirements:

- Total assets of the FIMC's holding company may not be less than USD 400 million;
- The aggregate Paid-in Capital that the FIMC's holding company invested in China may not be less than USD 10 million, and the holding company must invest (or be authorized to manage) no less than three domestic or overseas companies; or the FIMC's holding company must invest (or be authorized to manage) no less than six domestic or overseas companies; and
- Registered Capital of the FIMC may not be less than USD 2 million.
- The FIMC is the exclusive highest-level management company, which is authorized to manage all subsidiaries of the FIMC's holding company in China.
- For famous MNCs, some of above requirements may be relaxed.

Financial support and subsidies for RHQs

RHQs which are newly established or which relocated to Beijing on or after 1st January 2009 may be granted a one-time subsidy depending on the amount of their Registered Capital. Existing RHQs, which reached the following capital thresholds through capital increase, may be granted subsidies depending on the amount of their newly injected Registered Capital. The accumulated subsidies received may not be more than RMB 10 million.

Registered Capital	Subsidy	Payment
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Do the new regulations offer sufficient benefits to encourage MNCs to establish their RHQs in Beijing?

Yes
 No

vote

Equal or more than RMB 100 million but less than RMB 500 million	RMB 5 million	The subsidy will be paid in installments over three years at a rate of 40%, 30% and 30% of the total subsidy.
Equal or more than RMB 500 million, but less than RMB 1 billion	RMB 8 million	
Equal or more than RMB 1 billion	RMB 10 million	

Starting from 2009, RHQs may receive subsidies when their annual revenue meets a certain amount for the first time. Accumulated subsidies received may not be more than RMB 10 million.

Annual Revenue	Subsidy	Payment
Equal or more than RMB 100 million, less than RMB 500 million	RMB 1 million	The subsidy will be paid in installments over three years at a rate of 40%, 30% and 30% of the total subsidy.
Equal or more than RMB 500 million, less than RMB 1 billion	RMB 5 million	
Equal or more than RMB 1 billion	RMB 10 million	

RHQs may receive financial support on office rental, self-constructed or purchased office.

Terms of Requirements	Financial support	Payment
<p>RHQs that are newly established or relocated to Beijing on or after 1st January 2009 and which lease office space with the lease term no less than 3 years.</p> <p>Only for proportion that does not exceed 3,000 square meters is entitled to financial support.</p> <p>The leased office cannot be subleased or altered to another use during the period of financial support.</p>	<p>30% of office rental of the first year.</p> <p>20% of office rental of the second year.</p> <p>10% of office rental of the third year.</p>	Annual payment
<p>For self-constructed or purchased office of RHQs and their R&D Centers which are newly established or which relocated to Beijing on or after 1st January 2009.</p> <p>Only for proportion that self used as office and does not exceed 5,000 square meters can get the financial support.</p> <p>The self-constructed or purchased office, which receive financial support cannot be rented, sold or altered to another use within five years.</p>	RMB 1,000 per square meter	Annual payment

Subsidies for Senior Executives

From 1st January 2009, one of the Senior Executives of the RHQ can be granted a subsidy, which will be capped at RMB 0.5 million upon meeting the specified criterion. The subsidy is tax-free and will be granted for three years following the year that the RHQ is recognized.

For increased annual Corporation Income Tax that RHQ paid (retained by municipal treasure only) that ranked in top ten in Beijing, one of the RHQ's Senior Executives can be granted a subsidy amounting to RMB 0.5 million. This subsidy is also tax-free.

Flexible Visa application policies

The regulations afford convenient Visa application services to RHQ's foreign employees and their families. They can apply for Multiple Entry F Visas for themselves and their families for up to five years depending on their seniority within the RHQ.

Other preferential policies

According to the regulations, the Beijing Government may provide assistance to facilitate the children of RHQs' Senior Executives to enter school and nursery school in Beijing.

Foreign employees of RHQs and their families can apply for a 3-5 year resident permit.

Due to the rapid economic growth experienced by China, MNCs are increasingly tending to establish their RHQs in China. However, deciding which city is the best can be difficult. MNCs will consider many factors, such as tax policy, labour costs, operating costs, and financial services etc. Whether the regulations that the Beijing Government issued can entice more RHQs to Beijing remains to be seen.

Links

Please click on Regulation for an overview of the regulation

Please click on Detailed regulation for in-depth information on the regulation.

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