



How to Establish a Representative Office (RO) in China?

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How to Establish a Representative Office (RO) in China?

General advice and information about establishing a Representative Office in China

There has been a growing trend of overseas companies seeking to [register in one of China's cross-border e-commerce platforms](#) as a strategy to access a new market in search of new sources of revenue. Covid has accentuated this as well, with domestic markets reeling from the pandemic. The online platforms can provide logistics support as well the sales platform, but there is still often a need for a company to have a brand presence in China, and a roof under which to hire on the ground staff to take care of logistics, marketing, brand building, sales events, handle customer queries and complaints etc. For such circumstances, overseas companies could consider establishing a Representative Office in China.

What is a Representative Office?

A Representative Office is essentially a branch of an overseas company located in China that does not make a profit but can conduct an extensive array of operations. It follows the overseas companies name, and so brand. Such an office is used as a small base of operations to meet potential business partners, maintain and manage supply chains and channel sales, liaise with online platforms, conduct marketing operations, coordinate projects, market research, quality control, liaison and other support activities.

The Representative Office has some limitations, as its activities are not revenue-generating, such as it cannot sign contracts, issue invoices and conduct paid services, or have a warehouse for logistical purposes. The only services and operations it can conduct have to be with the parent company that it represents in China.

Does a Representative Office have Directors?

A Representative Office as a branch does not have a board of directors, but it requires a named individual registered as its Chief Representative. This person does not need to reside in China and can be of any nationality. Their passport would need a copy to be notarized and authenticated, and, depending on the bank, the person will have to visit China with their passport to open a bank account (some flexibility has been possible on this during Covid). The Chief Representative is ultimately responsible for ensuring that the Representative Office complies with the law and regulations of China.

A Representative Office can also name up to three additional people as representatives. Foreigners can only be registered as representatives, and therefore there is a cap of four. There is, however, no cap for local hires.

How to staff and fund a Representative Office?

Funding for the Representative Office to cover its running costs can be sent from the overseas company headquarters to the representative office's Chinese bank account. The Representative Office can hire

staff foreign and local, though local is indirect through a Government HR agency, an overhang from the early days of foreign companies operating in China.

A Representative Office of such sort by nature is not profit-making (there are some profit-making types such as law firm Representative Offices), but they are taxed. The tax is determined on a cost-plus basis, taking into account operating costs, rental, travel, staff costs etc., with the cost divided by 85%. The deemed revenue is subject to VAT and local city taxes unless exempt in some parts of the country, and the deemed profit is subject to Corporate Income Tax (CIT) of 25%. An example of the tax is as follows:

Representative Office in Shanghai Tax Example

Deemed Profit Calculation

$$\begin{aligned} &\text{Total Expenditure: } 100,000.00 \text{ RMB} \\ &\quad \downarrow \\ &\text{Deemed Revenue: } 100,000.00 \text{ RMB} \div 85\% = 117,647.06 \text{ RMB} \\ &\quad \downarrow \\ &\text{Deemed Profit (15\% of Revenue): } 117,647.06 \text{ RMB} \times 15\% = \mathbf{17,647.06 \text{ RMB}} \end{aligned}$$

VAT Calculation

$$\begin{aligned} &\text{VAT Rate: } 3\% \\ &\quad \downarrow \\ &\text{VAT: } 117,647.06 \text{ RMB} \times 3\% = \mathbf{3,529.41 \text{ RMB}} \end{aligned}$$

Surcharge Calculation

$$\begin{aligned} &\text{Urban City Maintenance Tax (7\%): } 3,529.41 \text{ RMB} \times 7\% = 123.53 \text{ RMB} \\ &\quad \downarrow \\ &\text{Education Surcharge (3\%): } 3,529.41 \text{ RMB} \times 3\% = 52.94 \text{ RMB} \\ &\quad \downarrow \\ &\text{Local Education Surcharge (1\%): } 3,529.41 \text{ RMB} \times 1\% = 35.29 \text{ RMB} \\ &\quad \mathbf{\text{Total Surcharge: } 211.76 \text{ RMB}} \end{aligned}$$

Corporate Income Tax Calculation

$$\text{Corporate Income Tax (25\%): } 17,647.06 \text{ RMB} \times 25\% = \mathbf{4,411.77 \text{ RMB}}$$

Total Tax Payable

$$3,529.41 \text{ RMB} + 211.76 \text{ RMB} + 4,411.77 \text{ RMB} = \mathbf{8,152.94 \text{ RMB}}$$

In essence the Representative Office in this case pays 8.15% in tax.

Once the Representative Office is operational, it is required to maintain proper accounting records locally, and it is required to have an accounting firm conduct an annual audit and file quarterly taxes and a yearly tax return. The head office of a Representative Office can pay costs directly, or the Representative Office can pay by itself, but all related costs, regardless of the location of payment, should be included within the accounting records of the Representative Office. As tax is paid on a deemed basis, it is important that the parent is able to take the expenses into its books, as branches are consolidated in most jurisdictions, and it can claim a credit for the CIT paid under the double tax treaty between that jurisdiction and China.

How Long and What is Needed to Establish a Representative Office?

Representative Offices are reasonably quick to establish, taking around two weeks from the time of filing, depending upon the location. However, there are two essential factors that overseas companies must be aware of, firstly that the overseas company should have been established for at least two years, and secondly, the Representative Office is tied to its location in China, i.e. it cannot have its own branch in another Chinese city.

As for documentation, the overseas company will have to have a letter from the bank that states the company's good financial standing, a summary of the overseas company operations, employee documentation and CVs, and lastly, a lease contract of where the office will be based in China. Where a formal office is not required, because of employees working from home or travelling a lot, there are serviced office centres that can provide a registered office address with the proper documentation required as part of the registration.

General Recommendations

A Representative Office provides a way for a company to have a base in China, brand presence and carry out supporting activities, including brand building and marketing activities. This could support either direct sales or, more recently, often supporting sales through online platforms. It is easier to set up than a company and has fewer compliance requirements, and there is no investment required.

Overseas companies should seek firms that can offer one-stop-shop services like LehmanBrown to reduce the time needed to begin operations in China. LehmanBrown, for example, on top of providing HR and accounting services, has an extensive network of partners that can offer [prime office real-estate](#) for the business needs of the company.

To find out more about Representative Offices in China and how to establish an office for your business needs, please send your enquiries to enquiries@lehmanbrown.com.



About Us

LehmanBrown is a licensed China-focused accounting, taxation and business advisory firm, operating dedicated offices in Beijing, Tianjin, Shanghai, Shenzhen, Guangzhou, Hong Kong and Macau, and with an extensive affiliate network throughout China and in over 100 countries worldwide.

LehmanBrown combines years of international expertise with practical China experience and knowledge, offering expert advice and support to both local and international clients. We are committed to providing individually tailored financial and business solutions for each of our clients, recognizing that each client is different. Through offering “whole of life” services, LehmanBrown offers clients assistance throughout every step of their business life cycle, from pre-conception to afterlife. LehmanBrown is registered with the PCAOB in the US and is able to conduct SEC work, as well as being accredited by accounting bodies in the UK and Australia.

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如需为个人或企业获取更多的增值服务及业务协助信息，请与我们联系。

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