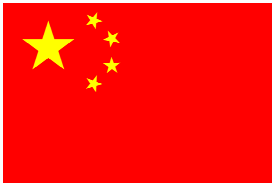




Change of Tax Regime in China



Starting from 1st January 2008, the corporate tax regime applicable to "Wholly Owned Foreign Enterprise" (WOFE), the usual form of corporate vehicle for investing into China, will be "merged" with the corporate tax regime of local enterprises. The corporate tax rate will be standardized to 25%. This will be a good news for some, but a bad news for others.

The relevant resolution had been past in the 11th National People's Congress recently. Details of the tax rate and the mechanism will be declared in this October. To the foreign enterprises operating from special zones that are enjoying preferential tax treatments, the "merger" will not be nice to their ears. The current tax rate of all local business and foreign enterprises operating outside special zones is 33% while enterprises in special zones may be enjoying tax rate as low as 15% or they are still enjoying tax holidays. For instance, those enterprises established in the economic and technological development zones of Shanghai and Pudong New Area are paying income tax at a reduced rate of 15%. In some areas, tax holidays still apply to foreign enterprises engaged in preferred industries.

According to informed sources, corporations set up before 31 December 2007 in the special economic zones and technological development zones can still enjoy the preferential tax treatment (Grandfathered). However, the tax rates for WOFE and local enterprises will be unified at 25% in the coming five years' transitional period. The nature of business, industry and the location will all affect the difference of the tax rate, details are as follow:-

1. Joint Venture or WOFE that are now enjoying tax rate of 15% or less, tax rate applicable to them will be adjusted to 25% after the 5-years.

transitional period

2. For those enterprises which are situated in the special economic zones and running as an export-oriented production WOFE, they are now enjoying tax rate as low as 10%. After the implementation of the new law, the tax rate will be increased to 15% immediately and it will steadily be increased to 25% in the 5-years transitional period.
3. For local enterprises, which are now paying the 33% tax rate, the tax rate after the implementation of the new law will be adjusted to 25%.

The reduced tax rate benefit may not be available to new WOFEs which are set up in 2008 after the new tax rate comes into effect. However, if the WOFE is set up this year, grandfather rules will apply. Since the Chinese government is encouraging the technology Industry, the tax rate for that industry will be maintained at 15% to encourage the investment in high technology, and environmentally friendly industry.

If you or your clients are interested in setting up a WOFE in China, we suggest you to start the setting up procedures now since the process normally takes around 60 days, starting from receiving instructions and full particulars and necessary documents from the applicant to the issuance of the Approval Certificate. Thereafter, the post-establishment registration procedures take about 60 days.

Please do contact us if you require further information on setting up WOFE in China.

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