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Solutions for China Entry & Growth*

Welcome to JLJ's e-newsletter - **China Focus**. Here, we hope to share with you the latest regulatory updates and useful information relevant to China's business environment. This e-newsletter is brought to you, our valued network, as part of JLJ's value-added service.

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Tax Updates

New Restrictions on Tax Treaty Benefits



In February of this year the State Administration of Taxation (SAT) released new guidelines for qualifying foreign investors using offshore holding companies in an effort to enjoy special tax treatment. Under current PRC tax law, withholding tax on dividends being paid to foreign investors is 10%; however certain tax treaties stipulate a reduced rate, generally 5%, such as those treaties with Hong Kong and

Singapore.

The new guidelines, as specified in Circular 81, prescribes specific requirements that companies must abide by before they will qualify for the reduced withholding tax rate. These requirements include:

- The recipient must be a company and the beneficial owner of the dividends
- The recipient must be a tax resident of the offshore jurisdiction
- Direct ownership of the PRC company must be maintained for 12 consecutive months before payout of the dividend

Furthermore, Circular 81 details documentation requirements the foreign investor must provide to qualify for the reduced withholding tax rate.

The purpose of this circular, among many other recently introduced clarifications, is to crack down on investors who establish offshore holding companies for the sole purpose of minimizing tax exposure through tax treaties. Foreign investors currently using or seeking to use offshore holding structures for their China investments should review the operations of the Holding Company to ensure there is sufficient evidence of business activity to take advantage of tax treaties.

For more information, please email to tim.lamb@jljgroup.com

Human Resources

Social Benefit Basis Adjustment



On April 1st 2009, the Shanghai Labor and Social Security Bureau announced that the average annual salary of full-time employees in Shanghai amounted to RMB 39,504 in 2008 (average monthly salary of RMB 3,292), an increase of about 14% from the year before.

Currently, the lower and upper limits of social insurance and welfare benefits contributions are 60% and 300% of Shanghai's average salary respectively - figures that are revised on an annual basis. Following the announcement on April 1st, employers in Shanghai will see an increase in their social insurance contributions if their local employees' (Shanghai residents) monthly salaries are below RMB 1,975 or above RMB 8,676. The adjustment will be valid from April 2009 to March 2010.

Meanwhile, the integrated insurance premium for employees who are non-Shanghai residents has been increased to RMB 246.90 per month and the minimum hourly and monthly wage requirements in Shanghai this year are RMB 8 and RMB 960 respectively. Employers should expect similar adjustments to the contribution for public housing funds in July this year.

For more information about social insurance schemes for Chinese employees, please email to may.bai@jljgroup.com

China FDI

Draft Law on Representative Offices

August of last year, the Ministry of Commerce issued a draft of the new laws pertaining to Representative Offices (RO) in China with final opinions collected by September within the same year. The draft law sets out to clarify the purpose as well as the scope of activities RO's may conduct including procedures for allowing RO representatives to sign contracts on behalf of the parent company. The draft also allows for adjustments to the administrative procedures for setting up and maintaining the office allowing for flexibility in terms of amendments to the RO structure.

Of significant interest to foreign companies is the requirement that the parent company have operated outside of China for at least one year before it may establish an RO - restricting newly formed holding companies from this setup option. Furthermore, the requirement that RO's use a third party service provider to indirectly employ local employees has been noticeably dropped from the draft law, which may mean that RO's might be able to employ locals directly in the future.



It is still unclear if and when these changes to the law will be enacted or if a second draft will be issued. However, the issues being considered within this draft offer a clear indication that the government is reassessing RO structures and their operations within China.

For more information, please email to tim.lamb@jljgroup.com

Market Insights

Case Study: China's 5 Star Hotel F&B Purchasing Behavior

This edition of the JLJ Newsletter continues our series on case studies from recent client work. New Zealand Trade & Enterprise (NZTE), the New Zealand government's national economic development agency sought research on the HRI sector.

NZTE asked JLJ to research 5-star hotels in Shanghai and Beijing to determine behavior and trends in the purchasing processes of Food & Beverage (F&B) goods.

The project was successful in revealing or confirming insights that will be helpful for New Zealand food and beverage suppliers. It provided them a better understanding of the hotel sector in China, how decisions are made and products sourced.

JLJ also presented the research findings to a delegation of New Zealand companies who were in Shanghai in December 2008.

For inquires about this article or the work of our consulting division, please email Mark at mark.ray@jljgroup.com



JLJ Events

**JLJ together with Morning Tears invite you to:
The outdoor Charity event
Saturday, April 25, 1pm @ Shanghai Zhongshan Park**

You would like to get rid off all your old winter clothes, your school and children books, blankets or other useful items for children in need?

Here is your chance! Come and join us on Saturday, April 25th at 1 pm. We are planning for people to have picnics, play football and many other outdoor activities... So please bring your friends, families and pets along for nice day out in the park... **to help and have fun.**

This is how you can help:

Bring one or more of the following items you want to get rid off and put a smile on those children who have been neglected or were never given the opportunity to make something out of their life:

- Clothes for children and teens/ young adults
- Children books (Chinese/ English)
- School books (Chinese/English)
- Blankets, covers, quilts
- Children games & toys



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The JLJ Group provides solutions to foreign companies entering and growing in China. Our core services include Market Consulting, Corporate Formation, Human Resources, Tax & Accounting as well as Business Process Outsourcing.

Send us your business enquiry at info@jljgroup.com or find out more about our services at www.jljgroup.com.

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