

# BEIJING'S WAY OF HELLO TO MULTINATIONAL COMPANIES

Implementation Rules issued to encourage multinational corporations to establish Regional Headquarters in Beijing



Further to the Regulations issued in May 2009, the eight municipal authorities in Beijing jointly issued the Implementation Rules Encouraging Multinational Corporations to Establish Regional Headquarters (RHQs) in Beijing (“the Implementation Rules”). The Implementation Rules set out the criteria and details of the incentives available to RHQs in Beijing.

### Recognition criteria

RHQs include the following two types of companies:

- 1) Foreign investment holding companies; and
- 2) Foreign investment management companies satisfying the following conditions:
  - The total assets of the parent company should not be less than USD 400 million.
  - The aggregate capital injected by the parent company in China should not be less than USD 10 million and the parent company needs to invest in (or authorize the management to manage) at least three domestic or overseas companies. Alternatively, the parent company needs to invest in (or authorise the management to manage) at least six domestic or overseas companies.

- The registered capital of the management company should be more than USD 2 million.
- The management company shall have the highest administrative authority over all the Chinese subsidiaries of the parent company.

A foreign management company is a legal entity engaged in the provision of management services, fund management, logistics, sales, planning, consulting and training to Group Companies or Associate Companies.

These conditions may be relaxed for well-known multinational corporations.

### Recognition authority

The Beijing Municipal Commission of Commerce will be responsible for recognizing RHQs in Beijing.

### RHQ business scope

According to Jingzhengfa [2009] No. 15, an RHQ can engage in investment, operation management, fund operation and management, technical support and R&D, marketing services, personnel training and management activities. Additionally, the RHQ can also be involved in import and export activities, domestic distribution, logistics, information services and

outsourcing services.

### Financial support

Beijing’s Municipal Commission is expected to offer financial support to RHQs in the following areas:

- RHQs that are newly registered in Beijing or relocated to Beijing on or after 1 January 2009 can be granted a one-off subsidy depending on the registered capital of the RHQ:

Registered capital of RHQs	Amount of subsidy
Between RMB 100 million and RMB 500 million	RMB 5 million
Between RMB 500 million and RMB 1 billion	RMB 8 million
Registered capital exceeding RMB 1 billion	RMB 10 million

The subsidy is expected to be paid to an RHQ in three installments at 40 percent, 30 percent and 30 percent over a three-year period. In addition, existing RHQs that reach the above capital thresholds through capital increases may also be eligible for these incentives depending on the extent of the capital increase. The accumulated subsidy should not exceed RMB 10 million. For example, if an RHQ increases its registered capital from RMB 200 million to RMB 600 million, then a subsidy of RMB 5 million would be granted for the capital increase of RMB 400 million; if an RHQ increases its registered capital from RMB 200 million to RMB 800 million, then a subsidy of RMB 8 million could be granted for the

capital increase of RMB 600 million.

- Starting from 2009, RHQs that reach a certain annual turnover for the first time can be granted a one-off reward of RMB 1 million or RMB 5 million or RMB 10 million, paid in installments over three years at a rate of 40 percent, 30 percent and 30 percent. The accumulated reward cannot exceed RMB 10 million.
- Subject to certain conditions, RHQs and their R&D centres that are newly registered in Beijing or relocated to Beijing on or after 1 January 2009 that build or purchase office premises in Beijing can be granted a one-off subsidy of RMB 1,000 per square metre for self-occupied office space. This subsidy is however limited to 5,000 square metres.
- Subject to certain conditions, RHQs that are newly registered in Beijing or relocated to Beijing can be granted a rental subsidy. The subsidy would be for the first three years and equivalent to 30 percent, 20 percent and 10 percent of each year's rental.

Although not explicitly mentioned

in the regulations, the subsidies mentioned above are likely to fall outside the scope of non-taxable Government subsidies, and would therefore be subject to Corporate Income Tax.

- Starting from 1 January 2009, one senior executive of the RHQ would be eligible for cash reward for the first three years commencing from the year following the granting of the RHQ status. The reward is expected to be equivalent to 80 percent of the individual Income Tax paid by the individual and retained by the Municipal treasury.

If there is a change in location, Qualified RHQs need to apply to the Department of Commerce at the District/County level in order to be eligible for the financial support discussed above. The application needs to be made between 1 August and 30 September each year.

#### Attracting talent

To simplify the employment application procedures for expatriates, RHQs can simultaneously file applications for employment permits and employment certificates.

In addition, personnel working for more than two consecutive years in the RHQs as deputy general managers or an equivalent post, or higher can qualify for a special award stipulated in the circular Jingzhengbanfa [2005] No. 18. The individual is eligible for a special award if certain investments (e.g. purchase of resident property, car, etc.) are made by senior employees of specified industries and enterprises. The circular caps the reward at RMB 300,000 each year.

#### Simplified visa application

The Implementation Rules provide simplified visa application procedures for expatriate employees working in RHQs. Expatriates working at RHQs may apply for Multiple Entry F Visas of up to five years, subject to their seniority in the RHQ.

#### Implications

Setting up RHQs in Beijing can help multinational corporations promote their company's image, enhance their relationship with Government authorities and enjoy the relevant financial subsidies offered by local Government.