

DEZAN SHIRA & ASSOCIATES

Corporate Establishment, Tax, Accounting & Payroll Throughout Asia

**Explaining the Monthly Payroll
Process in China:
What Does Your HR Manager
Really Do?**

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Agenda

- I. Inputs into the Monthly HR Process
 - a. Basic Employee Information
 - b. Overtime
 - c. Mandatory Benefit
 - d. Special Payments and Performance Plans
 - e. Sick Leave and Annual Leave

- II. A Sample Timeframe for Monthly Processing

- III. The Master File, Approval Process and Sample Outputs

- IV. Annual Requirements

Section 1

Inputs into the Monthly HR Process

- Explanation of Standard Component Elements

Basic Employee Information

- **Information taken from Employee Details Form**
 - Make sure filled out and signed by employee
 - Make sure disclaimer is also signed allowing reference check

- **Entered Into Standardized Form for Upload**
 - Scan above-mentioned form into system for cross-reference



Overtime

➤ **Overtime information downloaded from attendance machine**

- No. of hours worked in evenings, weekends and public holidays broken down by machine

Weekdays over and above 8 hours: 150% of base

Weekends: 200% of base

Public Holidays: 300% of base


➤ **Data uploaded into system**



➤ **Overtime rates different for workers using comprehensive work shift system**

Mandatory Benefit

- Downloaded directly from govt. website(s) or provided by service provider
 - FESCO
 - CIIC
 - Dezan Shira etc.

- Data uploaded into system 

- Some providers can only organize information relatively late in the month – causes a problem for payroll approval process

Special Payments / Performance Plans

- Refers to one-off payments made to employees

Annual Bonuses	Tax-Deductible Allowances for Foreign Employees
Retention Bonuses	Severance Payments
Stock Option Income	Accruing Plans with Tax Paid on Vesting

- Data uploaded into system



- System must have pre-defined categories of special payment together with related tax treatment

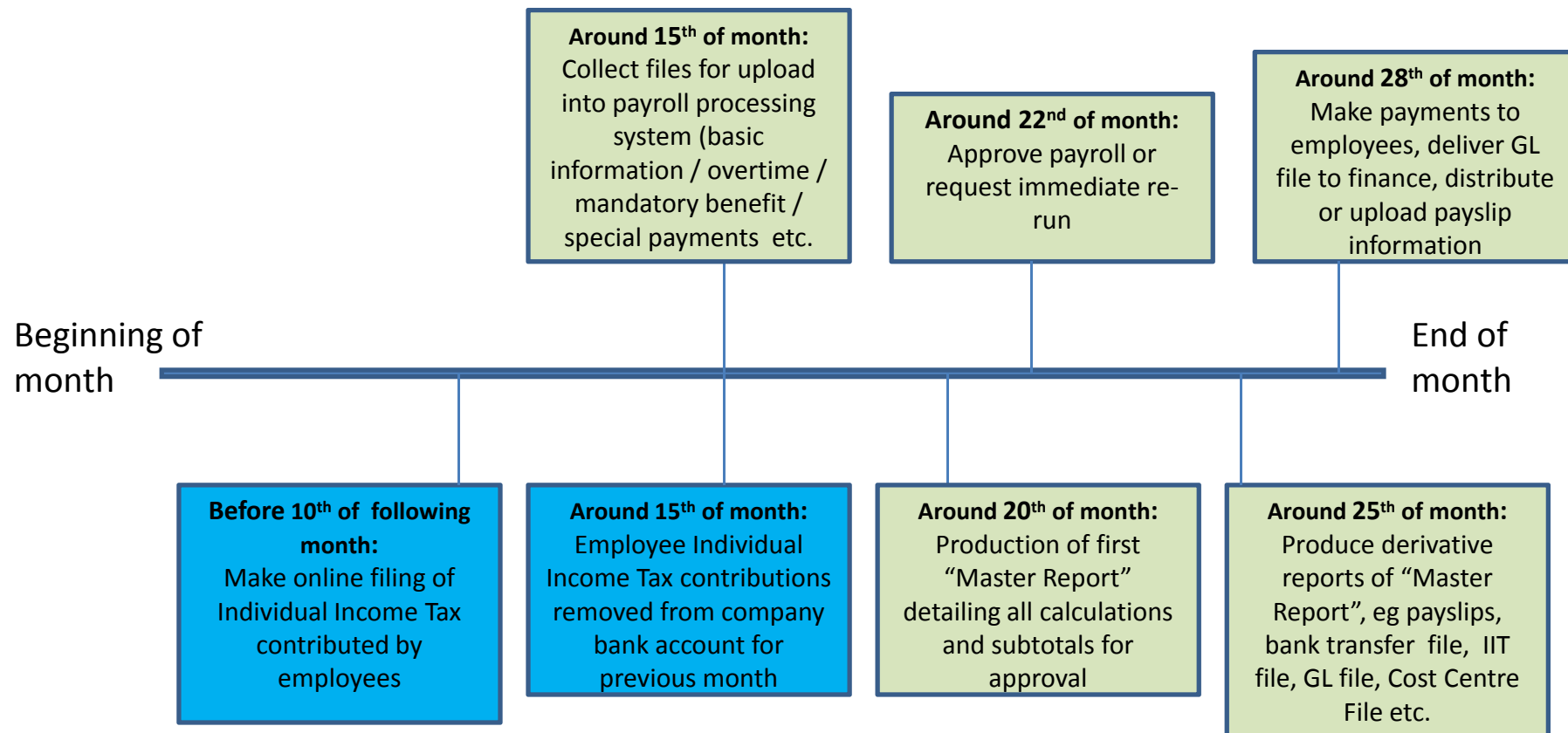
Sick Leave and Annual Leave

- **Statutory regulations in place but most foreign invested companies provide additional allowances**
- **Administration normally managed manually or through corporate ERP system (generally best not to include salary information on such systems)**
- **Data uploaded into payroll system**
- **System calculates excess sick / vacation leave over allocation and factors into calculations**

Section 2

A Sample Timeframe for Monthly Processing

Monthly Payroll Process Timeline



Section 3

- The Master File
- The Approval Process
- The Output Files

“The Master File”

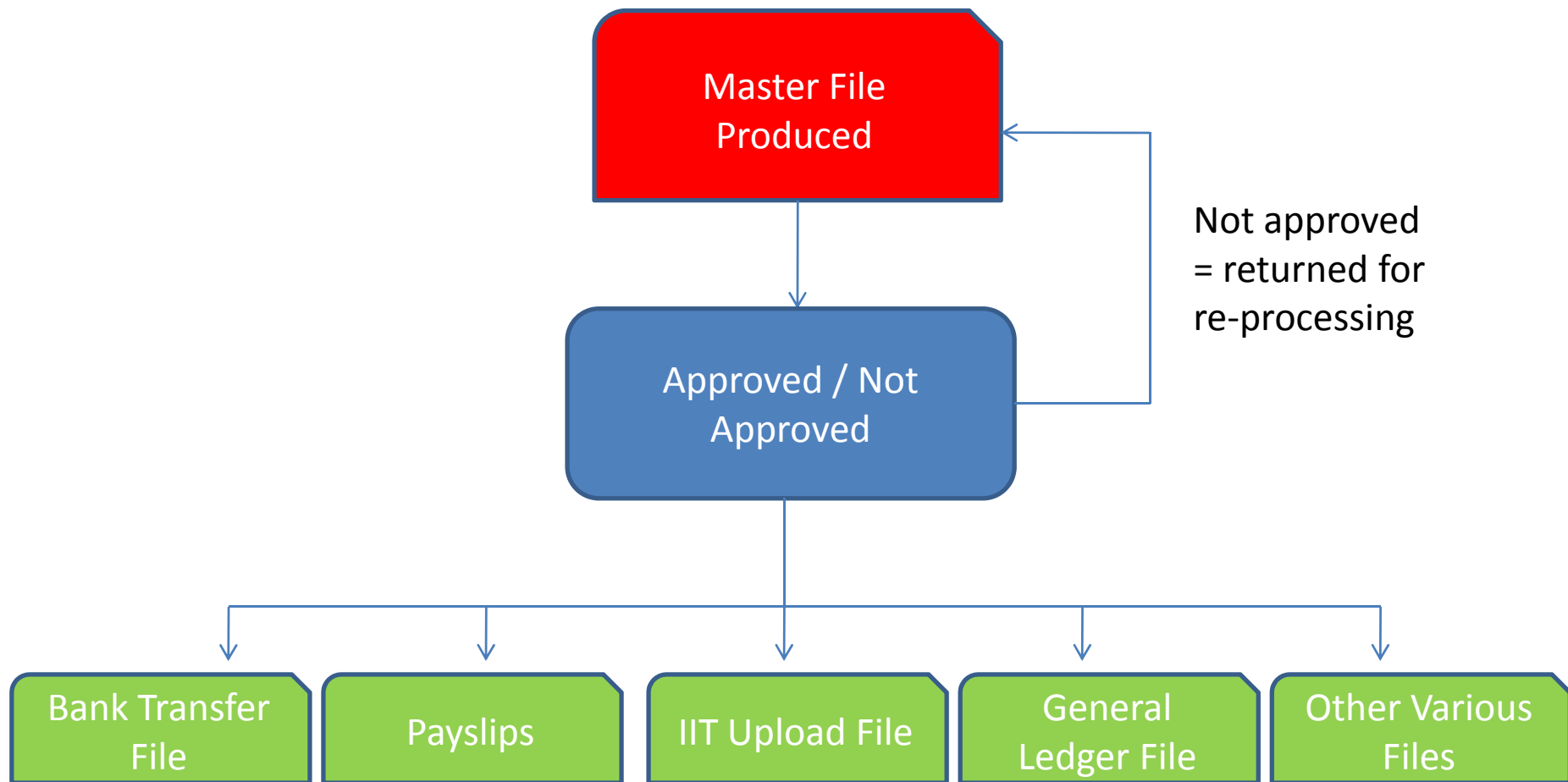
- **Breaks down all the information required by HR director to approve monthly payroll**
- **Can include items not directly related to payroll but that do effect C&B cost (for instance agency processing fees)**
- **All other reports fundamentally derived from master report information – no need for further manual work and therefore further approvals**



Summary of Key Contents

Employee-Specific Content	Subtotals
Offered Base Salary	Filing IIT (deducted from bank account in following month – finance should ensure adequate funds)
Overtime Hours Worked	Mandatory Benefit EE + ER (amount deducted for social insurance – accounting needs this info)
Bonuses Paid	Net Take Home Pay (this amount approved by finance team when bank transfer file is uploaded)
Net Take Home Pay	Total C&B Expense (most relevant for HQ to assess cost of employing China team)
Employer MB Contribution	Payroll Processing Fee (to monitor cost of using agents to manage payroll processing)

“The Approval Process”



Output File – Bank Transfer File

- Prepared according to the format of the company's bank for batch processing
- Uploaded by someone involved in HR department
- Approved by someone in finance, *but this person only sees the total amount paid to employees = ensures confidentiality*



Output File – Payslip

- **Provided to employees once bank transfer file has been approved and funds have left corporate bank account**
- **Can be in paper format (security paper), electronic format or online**
- **Paper document sometimes necessary for employees to apply for overseas visas, bank loans or other reasons**



Output File – IIT Upload File

- **Specified format from each tax bureau**
- **Information to be uploaded in the beginning of following month after payments made to employees**
- **As a general rule, complete data is stored within some software on the computer of the HR person, and only general information is sent to tax bureau via upload. However once a year all detailed information should be printed from software, stamped with company stamp and filed with tax bureau**



Output File – General Ledger File

- **Format dictated by requirements of corporate accounting system**
- **Uploaded into accounting system**
- **Effectively it is a kind of summary of all accounting entries relevant to payroll processing**



Section 4

Annual Requirements

120,000 RMB Declaration

Payroll Audit

120,000 RMB Declaration

- **Strictly speaking, this is a requirement for the employee, not the employer**
- **However the employer should at least provide the employees with accurate information about their salary so that they can fill out the document and make the submission (see p93)**
- **Many companies will engage an outside provider to help their foreign employees fill out the form and make the submission**
- **Deadline for submission around April each year**

Annual Payroll Audit

- **Only required by the government in certain areas**
- **In such areas, necessary for completion of annual license renewal**
- **As an example, the following documents are necessary to be submitted in Dalian (Development Zone):**
 - Average No. of Employee and Average Salary Amount
 - Social Insurance payment details (by month)
 - Copy of evidence that social insurance payments have been completed
 - Company social insurance registration certificate

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Question & Answer

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Thank you for your attention!

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