



DEZAN SHIRA & ASSOCIATES
Your Partner for Growth in Asia

TRANSFER PRICING IN CHINA

INTRODUCTION

What is Transfer Pricing in China?

When a business transaction occurs between businesses that are controlled by the same entity, the price is not determined by market forces, but by the entity controlling the two businesses. This is called transfer pricing. An example is a transaction between a parent and its subsidiary, or other intra-group transactions.

These transactions can be used to shift funds - and thereby profits. Such transactions can serve as a tool for finance and tax planning.

For instance, China's foreign currency control regulations only allow one dividend issuance to a foreign entity a year. Moving funds out of China by using inter-company transactions can then offer a solution.

In this report on Transfer Pricing, we discuss what types of transactions foreign investors can use to shift funds in this way.

Double taxation agreements between countries play an important role in transfer pricing. These allow foreign investors considerable tax savings when using offshore holding companies – under certain conditions.

Intra-group transactions often serve a legitimate purpose, but tax authorities around the world are wary of their use in lowering corporate profits. China is no different. Like in other countries, the Chinese tax office sets standards as to what transactions are acceptable. Those that do not meet these standards are not recognized.

If done properly, transfer pricing can save a foreign investor a substantial amount on their tax bill. However, careful planning is advised: transfer pricing transactions are under special scrutiny. In case of non-compliance, the back taxes and penalties can be severe.

Dezan Shira & Associates can assist your company in planning transfer pricing transactions, and furnishing the required documentation. If you would like to learn more about transfer pricing and how we might assist you, please do not hesitate to contact us.



ALBERTO VETTORETTI

Partner

Dezan Shira & Associates

A stylized, handwritten signature in black ink, appearing to read 'Alberto Vettoretti'.

