

# Contribution of Registered Capital to Companies in China:

Evolution of Requirements and Strategic  
Planning After the 2024 Reform



# Registered Capital in China: Evolution of Rules

## Before 2013. Strict Requirements:

- ✓ Minimum registered capital amount established
- ✓ Clear contribution deadlines (often before registration)

## 2013–2024. Full Liberalization:

- ✓ No minimum registered capital requirement
- ✓ No contribution deadlines

**Result:** Boom in company registrations. Consequence: Rise of "shell" and insolvent firms

## From July 1, 2024. New Balance: Flexibility + Accountability

- ✓ Minimum capital — still not established (for most industries)
- ✓ But! Registered capital must be fully paid up within 5 years from the registration date

Goal of the reform: Increase trust in business, protect counterparties, and strengthen financial discipline from day one

**Practical Advice:** When registering, choose a realistic capital amount and a clear contribution schedule—this is no longer a formality but a legal obligation

# Registered Capital in China: New Rules from July 1, 2024

## Mandatory 5-Year Term

- ✓ Applies to all LLCs and JSCs
- ✓ Also applies to capital increases — a new 5-year countdown starts from the date of registering changes with SAMR

## Exceptions

only for highly regulated sectors (banks, insurance, securities, fintech) under separate laws

## Risks of an Incorrect Choice

| Excessively High Capital                           | Excessively Low Capital                      |
|--|--|
| Pressure from mandatory contributions              | Loss of partner trust                        |
| Risk of non-performance → liability for founders   | Restrictions on loans and public procurement |
| Blocked expansion without additional contributions | Issues with initial funding                  |

## **Recommendation. Choose registered capital as an investment plan, not a formality**

- ✓ Base it on your business model
- ✓ Specify a clear contribution schedule
- ✓ Consider industry minimum requirements (even if not mandated by law, banks and counterparties may expect them)

## **Example for an LLC:**

Company registered on May 10, 2022 → new 5-year limit = until May 10, 2027. If the articles state "pay by 2028" — amendments are required by June 30, 2027

### **Strategic Risks of Non-Compliance**

- ✓ Founders bear subsidiary liability for company obligations
- ✓ Possible blocking of registry changes (change of director, address, business expansion)
- ✓ Reputational and financial losses during inspections or transactions with partners

## Recommendation. Don't wait until 2027! Start now:

- ✓ Check your registration date and capital contribution schedule
- ✓ Compare it with the new 5-year limit
- ✓ If necessary — amend your articles of association in 2025-2026 to avoid a last-minute rush and penalties

## Registered Capital in China: New Rules = New Risks

Capital can be changed – but **ONLY** according to the rules. Any increase or decrease of capital requires:



A resolution from the general meeting of shareholders/participants



Notification of creditors (especially for a decrease)



Registration with SAMR with proof of:

- Payment (for an increase)
- Creditor rights protection (for a decrease)

# Prohibited: Withdrawing capital disguised as "loans," "repayments," or sham transactions



This is no longer just an administrative violation



This constitutes an abuse of corporate status

## Consequences: "Piercing the Corporate Veil"

| Who is Liable?                     | What is the Liability?  |
|------------------------------------|---|
| Founders / Shareholders            | Subsidiary: Creditors can seek recovery of debts personally from you, bypassing the company                             |
| Directors, Management, Supervisors | Joint & Several: If you approved, concealed, or failed to prevent the withdrawal — you are personally liable for losses |

**Limited liability is no longer a guarantee!**

# How to Contribute Registered Capital in China?

## The Three Rules of the Game



Only liquid, verifiable, and transferable assets are permitted






Personal promises, goodwill, and licenses are not accepted

### Permitted Forms of Contribution

| Type              | Examples  | Key Features  |
|-------------------|---|---|
| Monetary Funds    | RMB or Foreign Currency   | <ul style="list-style-type: none"><li>• Fastest and simplest method</li><li>• No appraisal required; avoids disputes with SAMR</li><li>• Suitable for most projects</li></ul>                         |
| Tangible Assets   | Equipment, Real Estate, Vehicles  | <ul style="list-style-type: none"><li>• Requires an independent appraisal</li><li>• SAMR verifies the real market value</li><li>• Ideal for manufacturing/production setups</li></ul>                 |
| Intangible Assets | Patents, Trademarks, Software, Land Use Rights, Equity in Other Companies | <ul style="list-style-type: none"><li>• Mandatory official appraisal in China</li><li>• High risk of scrutiny regarding IP valuation</li><li>• Suitable for high-tech and R&amp;D companies</li></ul> |

### Prohibited by Law

-  Sweat Equity ("I promise to work")
-  Business Goodwill / Reputation
-  Licenses, Quotas, Government Permits

These assets cannot be contributed as registered capital upon company establishment

# Comparison: What to Choose?

| Form of Contribution      | When to Use                                     | Key Risks   |
|---------------------------|---|---|
| Cash                      | Startup, urgent launch, trade, services         | Currency fluctuations   |
| Equipment / Real Estate   | Manufacturing, logistics, turnkey factory setup | Overvaluation → Tax complications                               |
| Intellectual Property     | Tech, IT, biotech, pharmaceuticals              | SAMR may reject the valuation — Delayed registration            |
| Equity in Other Companies | Restructuring, creating a holding structure     | Dual scrutiny: of both the equity stake and the issuing company |

## Strategic Advice

- ✓ Cash is the default option
- ✓ Use non-monetary assets only for a clear business purpose (e.g., transferring specific technology or land)
- ✓ Always:
  - Engage a Chinese appraiser
  - Prepare a complete set of supporting documents

**In China, capitalization is not merely a formality but a legal and tax strategy. The right choice of contribution form = Faster registration + Risk protection + Tax efficiency**

# Shareholder Loans in China: Two Paths, One Goal — Secure Financing

A foreign investor can finance a subsidiary not only through registered capital but also via shareholder loans.

⚠️ But: This tool is strictly regulated by tax, foreign exchange, and corporate law — especially regarding thin capitalization (debt limitation)

## Two Regimes: Which to Choose?

| Criterion           | Classical Approach (Debt/Equity = 2:1)  | Modern Approach (Based on Net Assets - NAV)   |
|---------------------|---|---|
| How it's Calculated | Max. debt = 2 × Registered Capital  | Max. debt = 2 × Net Assets (per balance sheet) – Existing Loans   |
| Pros                | <ul style="list-style-type: none"><li>• Simple, predictable</li><li>• Suitable at the start</li></ul>       | <ul style="list-style-type: none"><li>• Flexible - limit grows with profits</li><li>• Advantageous for profitable companies</li></ul> |
| Cons                | <ul style="list-style-type: none"><li>• Rigid constraint</li><li>• Doesn't grow with the business</li></ul> | <ul style="list-style-type: none"><li>• Requires audited financials</li><li>• More complex calculations</li></ul>                     |
| When to Choose      | Launch phase, low capital   | Established, profitable company   |

**Interest exceeding the limit is NOT deductible from corporate income tax!**

# Three Mandatory Conditions for a Legal Shareholder Loan



## 1. SAFE Registration

- All loans from a foreign shareholder must be registered with the foreign exchange system
- Transfer is only possible after registration and within the approved amount



## 2. Market Interest Rate

- The rate must comply with the arm's length principle
- Too low → tax authorities may reclassify it as a dividend (subject to 10% withholding tax)
- Too high → the interest will not be accepted as a deductible expense



## 3. Comprehensive Chinese-Language Contract

- Mandatory terms: Amount, term, interest rate, repayment and interest payment schedule
- Must be executed before the fund transfer

**A shareholder loan is not simply a "money transfer."**

**It is a tax and foreign exchange instrument that requires:**

- ✓ Prior choice of a calculation regime (2:1 or NAV)
- ✓ Registration with SAFE
- ✓ Execution of a legally sound contract

# CONTACTS

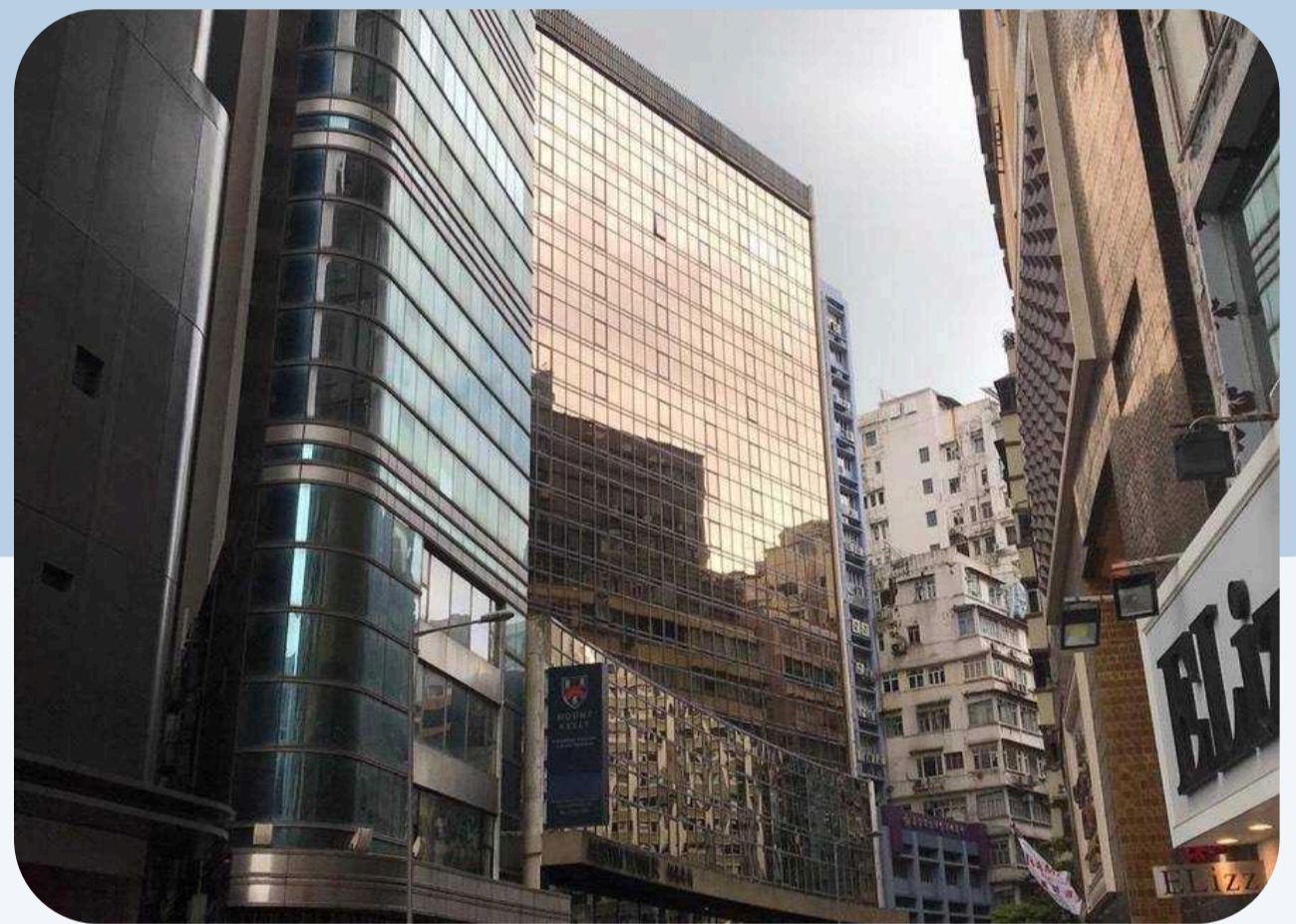
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