

WFOE annual compliance cycle: a four-link chain

Each link blocks the next

1 Statutory audit

Report issued by a Chinese CPA firm

2 Annual EIT return

Based on the audited figures

3 Annual tax reconciliation 汇算清缴

by May 31

4 Dividend distribution

Only after reconciliation

No audit, no tax return. No return, no reconciliation. No reconciliation, **no profit repatriation**

Year-end closing calendar: January to June

January

Preparation begins: closing the books, reconciling bank statements and fapiao

February–March

Assembling the auditor's package, preliminary tax calculation

May 31

STA deadline: annual EIT return and final reconciliation (汇算清缴)

June 30

SAMR deadline: annual report

Important

The audit report must be ready before both deadlines

Five checkpoints: what a WFOE auditor examines

Accounting

General ledger, accounting policies, period-end close



Risk: the books must be reconstructed if they weren't kept during the year

Fapiao

Issued and received VAT invoices



Risk: any mismatch with bank records will be exposed by the Golden Tax system

Taxes

EIT, VAT, individual income tax, withholding tax

 **Risk:** a gap between the tax base and the books leads to additional tax assessments

Bank & FX

Statements for RMB and foreign-currency accounts, SAFE documents

 **Risk:** an inflow without supporting documents blocks the payment

Company data

Business license, shareholders, registered capital

 **Risk:** inflated unpaid capital draws questions from SAMR

Auditors check **whether documents reconcile with each other** — not the explanations attached to them

STA, SAMR, SAFE: who is responsible for what

STA

State Taxation Administration

Corporate income tax (EIT), VAT, employee individual income tax

Deadline: **May 31**

SAMR

State Administration for Market Regulation

Corporate registry and annual report

Deadline: **June 30**

SAFE

State Administration of Foreign Exchange

Foreign exchange transactions and cross-border payments

No separate annual deadline — documents are requested per transaction

Attention

Miss the SAMR report → the company is placed on the List of Enterprises with Abnormal Operations (经营异常名录). Three years in a row — and the legal representative is barred from serving as a director for three years

Audit timelines: what drives the schedule and the cost

Four steps in order of increasing duration

4–6 weeks

Books kept throughout the year

Routine reconciliation, minimal additional tax

5–8 weeks

First year of the WFOE

Setting up accounting policies, verifying capital contributions

8–12 weeks

Books need reconstruction

Cost depends on the number of transactions and fapiao; risk of missing the May 31 deadline

quoted individually

Rush job before the deadline

Surcharge and risk of failing the audit

The timeline depends not on company size, but on **the quality of ongoing bookkeeping**

Five mistakes that cost the most at year-end closing

- ⚠ **English-only books.** Without the Chinese originals, the tax office rejects the package
- ⚠ **No digital fapiao (e-fapiao, 数电票).** Expenses without fapiao aren't deductible — the tax base grows out of nowhere
- ⚠ **Undocumented intra-group services.** No contract and no transfer pricing memo — the first question in any related-party review
- ⚠ **Dividends before the audit.** Until reconciliation is closed, profit can't be reduced by taxes, prior-year losses and the mandatory statutory reserve
- ⚠ **The silent zero-activity WFOE.** No operations doesn't mean no filings

Cost of delay

A late-payment surcharge of **0.05% per day** on unpaid tax, plus a fine of **50% to 500%** of the underpaid amount

WFOE registered capital: two dates the auditor will check

July 1, 2024

The revised Company Law took effect. For all new LLCs, including WFOEs: **subscribed capital must be fully paid in within 5 years** of incorporation

1.07.2024 — 30.06.2027

Three-year transition period for companies established earlier

June 30, 2027

Deadline to bring the contribution schedule into compliance and set it out in the articles of association, if it extends beyond 5 years from July 1, 2027

June 30, 2032

Final deadline for full capital contribution for companies registered before July 1, 2024

What the auditor checks

- ✓ The amount actually paid in, not the amount stated in the registry
- ✓ Consistency of the schedule with the current articles of association
- ✓ Proof of capital receipt in bank documents

Registered capital inflated “for the future” without actual payment is a common trigger for questions from banks and SAMR — and a weak point in terms of **economic substance**

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