

Reading Time: 2 minutes

Over the past 30 years, China has become the most populous country in the world and boasts the world's second-largest economy. Economic liberalization and continued reform make China a great place to hire employees and grow your business.

Payroll Taxation Rules

Before you can set up your payroll in China, you need to understand all of the country's taxation rules. China's progressive income tax ranges from 3% to 45% based on a worker's income. The corporate tax rate is 25%.

Employers contribute to different [benefit schemes in China](#). The country's statutory benefits include five insurances plus housing benefits:

- Health insurance
- Pension
- Worker's compensation
- Unemployment insurance
- Maternity benefits

As an employer, you must contribute to the housing fund, which operates like a 401(k). While some contribution is mandatory, employees often try to negotiate for more during the hiring phase. Employers typically contribute between 5% and 25% of the employee's annual salary.

China Payroll Options

Companies have multiple payroll options in China depending on their needs.

- Larger companies can choose to operate an internal payroll system for all foreign and local employees. This process requires hiring additional human resources personnel in China and developing an understanding of all Chinese payroll and tax laws.
- Other businesses choose to outsource payroll with a local administrator. While a payroll processing company can help compensate your employees and deal with tax and payroll regulations, you are still liable as the employer of record.
- Alternatively, you can work with a [global PEO such as Globalization Partners](#). We pay your employees and act as the employer of record to take the stress out of your business compliance.

How to Set up Payroll in China

To set up payroll, you first need to [create a subsidiary](#) and open bank accounts in the country. All payments must be sent to employees in the local currency — the Chinese yuan.

As mandated by Chinese law, you also need a strong written employment contract that contains information such as social insurance, working hour regulations, and working conditions.

Necessary Entitlement/Termination Terms to Set up China Payroll

An employment contract — which is required before setting up payroll in China — should outline specific termination terms and employee entitlements, including medical leave, personal days, and maternity leave. In China, employees get up to 12 months of sick leave with full pay if the sickness or accident is work-related. Non-work related injuries range from three months to 24 months of medical leave.

Termination terms vary by the type of contract the employee is in. Fixed-term contracts do not require any notice, but the notice period for other agreement types depends on whether the termination is with or without cause. No notice is required to fire with cause, but terminating an employee without cause requires 30 days' notice.

Instead of finding the right China payroll option yourself, you can work with Globalization Partners. We handle the stress of setting up payroll by paying your employees and taking the liability off your shoulders and onto ours. Contact us today to learn more.