

Payroll Compliance

1. Introduction

This report outlines the key legal and regulatory considerations for payroll processing in China for foreign enterprises. This system ensures compliance while safeguarding employees' personal information by only importing bank account numbers and payment amounts.

2. Legal and Regulatory Requirements

2.1 Labor Contracts and Wage Payment

According to Article 62 of the Regulations on the Implementation of the Foreign Investment Enterprise Law of the People's Republic of China, foreign enterprises hiring employees in China must sign labor contracts in compliance with Chinese laws and regulations. The contract should clearly define employment terms, termination conditions, remuneration, benefits, labor protection, and social insurance.

2.2 Payment Method and Frequency

- Employers must pay wages in full and on time according to the labor contract or collective wage agreement.
- Wages must be paid at least once per month in monetary form; payments in kind or securities are not permitted.
- If the scheduled payday falls on a legal holiday or rest day, wages must be paid in advance.

2.3 Overtime Wage Payment

If an employer requires an employee to work beyond standard working hours, the following overtime pay rules apply (Article 44 of the Labor Law of the People's Republic of China):

- 150% of the hourly wage for overtime on a regular workday.
- 200% of the daily or hourly wage if working on a rest day without a compensatory day off.

2.4 Individual Income Tax Withholding

Foreign enterprises must deduct and withhold employees' individual income tax (IIT) in accordance with Chinese tax laws and regulations before disbursing wages.

2.5 Social Insurance Contributions

Foreign enterprises must comply with China's social insurance laws, which require employers to enroll employees in social insurance programs and contribute accordingly. These contributions typically cover:

- Pension
- Medical insurance
- Unemployment insurance
- Work injury insurance
- Maternity insurance

Additionally, housing provident fund contributions are required as per local government regulations. Foreign employees may opt out of the housing provident fund in some cities (e.g., Shanghai), but participation is voluntary.

3. Data Security and Compliance in Payroll Processing

3.1 Data Privacy Regulations

Payroll data is considered sensitive personal information under China's Personal Information Protection Law (PIPL) and Data Security Law (DSL). Employers must ensure that:

- Employee payroll data is securely stored and processed.
- Cross-border data transfer of payroll information follows regulatory requirements, including approval from data authorities if necessary.
- Access to payroll data is limited to authorized personnel only.

3.2 Compliance in Bank Integration

When integrating payroll systems with banks, foreign enterprises must comply with:

- Bank security and interface standards to ensure secure transactions.
- Anti-money laundering (AML) and counter-terrorism financing (CTF) regulations, ensuring lawful financial operations.

4. Foreign Currency Payment Considerations

- Salaries for Chinese employees must be paid in RMB.

- Foreign employees may receive salaries in foreign currency, but foreign currency payments must comply with State Administration of Foreign Exchange (SAFE) regulations.
- Cross-border salary payments must follow China's foreign exchange control policies.

5. Electronic Payslip Compliance

Under China's Labor Contract Law, employers must provide employees with wage payment records such as paper or electronic payslips. If using an electronic payslip system, employers should:

- Obtain employees' consent for digital payslips.
- Ensure employees can access their payslips anytime.

6. In an ERP system, payroll processing typically follows two main methods:

1. ERP System-Generated Payslip with Mobile Access
 - The payroll system calculates the salary based on predefined rules and employee data.
 - Once the payroll is processed, the system sends an instruction to the payment system to transfer salaries.
 - After the payment is completed, the payment system returns a confirmation.
 - The ERP system then generates digital payslips and pushes them to employees via a mobile app or portal, allowing them to verify and check details.
2. Bank-Generated Payment Notification
 - Instead of generating payslips through the ERP system, the bank directly processes salary payments.
 - Once the payment is completed, the bank sends SMS notifications to employees with the payment details.
 - This method is simpler but does not include a detailed breakdown of salary components unless provided separately.