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Pros and Cons of Simplified Deregistration of Chinese Companies

The ordinary deregistration process stipulated by the Company Law of the PRC includes a series of statutory procedures such as liquidating claims and debts, liquidating company properties, preparing a balance sheet and inventory of properties, forming a liquidation group, notifying known creditors and making a public announcement on the National Enterprise Credit Information Publicity System for 45 days, formulating a liquidation plan, preparing a liquidation report, distributing company assets. Deregistering a company through the ordinary process usually takes a long time.

In addition to the ordinary deregistration process, Article 240 of the Company Law of the PRC also stipulates that if a company has not incurred any debts during its existence or has already paid off all debts, it can choose to deregister the company through a simplified process.

Under the simplified deregistration process, the company to be deregistered is not required to carry out a comprehensive liquidation as required by the ordinary deregistration process. All shareholders are only required to commit in writing that the company has no debts or all debts have been fully paid off, and make a public announcement on the National Enterprise Credit Information Publicity System for 20 days. The company may apply for deregistration if there are no objections after the announcement period ends. Deregistering a company through the simplified process is faster than deregistering a company through the ordinary process and the deregistration documents required are less.

Although it is simpler and faster to deregister a company through the simplified process, the biggest disadvantage of simplified deregistration is that all shareholders are required to commit that the company has no debts or all debts have been fully paid off. If the commitment is untrue, shareholders must bear joint and several liability for the company's debts prior to deregistration. Special attention should be paid to the joint and several liability which is not limited to the shareholder's capital contribution. Once it is ratified that the commitment is untrue, the shareholders must bear unlimited joint and several liability, that is, piercing the shareholder's limited liability. The most critical point is that the joint and several liability does not require the shareholders to have a subjective intention to evade debts. Even if the shareholders mistakenly believe that the company's debts have been fully paid off and thus make the commitment, they must bear joint and several liability for the company's debts as well. Therefore, the shareholders should carefully choose to deregister the company through a simplified process to avoid bearing unlimited joint and several liability for the company's debts due to negligence.

KAIZEN Group is equipped with experienced and highly qualified professional consultants and is therefore well positioned to provide professional advices and services in respect of the formation

and registration of company, application for various business licences and permits, company compliance, tax planning, audit and accounting in China. Please call and talk to our professional consultants for details.



If you need assistance or wish to obtain more information, please visit our official website at **www.kaizencpa.com** or contact us through the following methods:

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