

# LEHMANBROWN

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Professional Services

Taxation

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## Changes to Tax Filing Administration in Beijing

In a recent meeting of local tax bureaus in Beijing, it was revealed that four tax bureaus are in the process of simplifying the tax filing requirements in Beijing. As a pilot programme, the four local tax bureaus where the new requirements will be implemented are Chongwen Local Tax Bureau, the Foreign Branch of the Beijing Local Tax Bureau, Haidian Local Tax Bureau and Xikezhen Local Tax Bureau.

In these four districts, from January 2004 there will be no tax-filing requirement for business tax, vehicle and vessel usage tax and urban real estate tax. Instead, Taxpayers will only be required to prepare the taxpayers certificate and present it to the designated bank of the tax bureaus for payment purposes.

Representative offices that calculate their tax liability on an actual basis will also not be required to submit an explanation report to the tax bureau if they do not have any income. This rule is inconsistent with the requirements as announced last year in the most recent update to the tax administration of representative offices.

Tax return submissions are still required in these four areas for Individual Income Tax (IIT), stamp duty and enterprise income tax though there have been some changes to the filing administration in order

to streamline the process.

The new filing system only provides for two filing methods: self-reporting and withholding. The three-month grace period for initial registration and filing by foreign employees is abolished and all such employees should discharge their filing obligations within seven days after the end of the month in which the IIT liability arises. New IIT return and withholding returns will be issued for filing purposes.

All taxpayers are also encouraged to discharge their tax filing obligations online, even though simultaneous paper filing is required during the transitional period. The new online tax payment system links taxation bureaus, fiscal departments and banks together, consisting of subsystems of electronic declaration, electronic payment and electronic management.

### New Regulations on Import and Export Tariffs

The newly revised Regulations for the People's Republic of China on Import and Export Tariffs came into effect from January 2004. The new regulations redefine and set out provisions such as the establishment of import tariff rates and the applicable principles by country.

The new regulations also embody the tariff rates applicable to imports and exports which enter/exit China by special means, such as bonded goods, goods eligible for tariff concessions and imports that are leased goods.

Significant changes have been made to customs valuation. The main parts of the WTO Agreement on Customs Valuation are now incorporated in the new regulations. The basic rules of customs valuation such as definition, conditions and reasons of adjustment of the transaction price, and valuation methods are now consistent with the WTO Agreement.

In order to standardise all the processes involved in customs duty collection, the new regulations make stipulations regarding the time and place of customs declaration required of the consignor and consignee of import-export goods and extend the provisions to the taxpayer.

The rules concerning applicable exchange rates have also been revised. Where the transaction price of import-export goods and related fees are based in foreign currency, the basic exchange rate announced by the People's Bank of China will be used to calculate the dutiable price in RMB.

As for rebate and the deferred payment of duties, significant changes have been introduced in the new regulations. In accordance with the Kyoto Convention, rebate can now be granted for defective goods or goods not compliant with specifications that are returned to the supplier. For returned goods that were previously exports, the application for duty rebate must be accompanied by proof that the repayment of export-related domestic taxes has been made.

## 增值税

"Zeng Zhi Shui"

(Value Added Tax)

## 营业税

"Ying Ye Shui"

(Business Tax)

### **Relaxation of Foreign Investment in the Trading Sector**

The Chinese authorities have recently relaxed investment of foreign enterprises involved in the trading sector by permitting the establishment of wholly foreign owned and joint venture procurement centre arrangements.

The requirements for the establishment of such procurement centres include a registered capital of RMB 30million. The foreign investor must have an overseas distribution network, and if the centre is established as a joint venture, the Chinese partner must be in a sound financial position.

The business scope of the above arrangements is limited to foreign enterprises looking to export goods from China and those involved in the importation of sample products for procurement purpose.

### **FIEs Report Record Profits in Shanghai**

Some 30,000 foreign-invested enterprises (FIEs) in Shanghai earned record profits of 43.7 billion RMB (US\$5.26 billion) from sales revenue of 720 billion RMB (US\$86.7 billion) last year, doubling the amount of three years ago.

Encouraged by the gradually improving environment for investment in the city, foreign enterprises have continuously increased investment in Shanghai. In 2003 new contracted investment reached US \$3.81 billion while a record US\$5.85 billion was utilised.

Shanghai now is regarded as a "bridgehead" to enter into the Chinese market for strategic investment by many FIEs. Statistics showed that FIEs reported exports of US\$30.8 billion, making up 63.6 per cent of the city's total, and paid 30 billion yuan (US\$3.61 billion) in taxes to the local government last year, while employing 1.25 million of local staff during the same period.

### **Foreign Financial Institutions Allowed Direct Registration in Shanghai**

Financial institutions from overseas that want to open branch offices in China's financial hub Shanghai can now directly register at the local industry and commerce administration.

All financial institutions with overseas funds used to be required to go to the Chinese capital of Beijing to apply for registration or undergo annual examination, which cost much time and money. By late October 2003, 60 overseas-funded banks had opened branches in Shanghai, with total assets worth US\$25.34 billion.

*"Providing an alternative in China"*

**[insights@lehmanbrown](mailto:insights@lehmanbrown)** provides updates of the latest business news, taxation and accounting regulations in the People's Republic of China. It is designed to provide you with interesting and informative information to assist in your dealings with China or any China-related issues that you may encounter. If you do not wish to receive this newsletter, we have provided an un-subscribe facility below.

LehmanBrown also provides a monthly newsletter *Peeling the Onion* which investigates certain topical issues affecting businesses in China, particularly for those companies and individuals with operations in the PRC, or looking to establish a presence in-country.



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