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Foreign exchange account settlement to be made easier

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Foreign exchange account settlement to be made easier

With China's foreign reserves reaching US\$233.8 billion in April, demand exists for a better process of settling foreign accounts. To this end, a more convenient method for settling investing accounts will soon be in place for foreign investors after changes were made to the process of settling accounts. This new procedure, as announced by China's State Administration of Foreign Exchange (SAFE), will be effective from July 1 onwards.

Overseas investors will now be able to settle capital stock accounts directly with authorized local banks compared to in the past where every settlement, of foreign investors' capital stock accounts, have to be approved by SAFE before being submitted to the banks. Now, however, individual banks will be accountable for checking settlements and SAFE will oversee the bank's operations.

A spokesman for SAFE mentioned that the change in the settlement of accounts is targeted at improving the investment environment in China by improving the efficiency of foreign funded enterprises. The present approval system is said to have greatly slowed down the flow of capital from foreign investors. A trial program, launched at 200 authorized banks in August, kick-started the national reform of the process of settling accounts. This experiment was carried out in 20 cities, in provinces such as Shanghai, Guangdong and Zhejiang and was regarded as a success with positive feedback from foreign invested enterprises.

A spokesman for the pilot scheme said the reform shortens the time taken for foreign investors to settle all procedures at bank counters. Furthermore, he contested the notion that the change means SAFE is abandoning or weakening control of the settlements of capital stock accounts, adding that it has merely shifted its focus from foreign investors to authorized banks. However, the essential documents for settlement remain unchanged and the reform is only limited to the settlement of investment accounts.

SAFE will only authorize those banks that have had no large faults in capital account settlements in the past three years. Moreover, banks involved should report settlement data to the administration every working day and those without networks are asked to submit monthly reports. This moderation to the banking sector is an example of SAFE's continuous effort to strengthen the management of foreign exchange under the standards set down by the World Trade Organization.

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Further Details on Western China Tax Incentives

The Notice of the State Administration of Taxation on Specific Implementing Opinions for Implementation of Tax Policies Related to Large-Scale Development of Western China was issued by the State Administration of Taxation on May 10, 2002.

The Notice provides clarification on the application requirement for the two main tax incentives for foreign-invested enterprises in Western China:

- (i) the 15% income tax rate incentive and
- (ii) the 2-year tax exemption, 3 year 50% tax reduction.

The Notice also clarifies the procedure to be followed when there is difficulty in determining whether or not a project qualifies as an encouraged project.

Other matters are also addressed such as how much of an enterprise's income has to be production-related income in order to qualify for the 2-year exemption and 3-year 50% reduction; the calculation method when an enterprise qualifies for both incentives; exemption from local income tax in minority group autonomous areas; how to handle consolidated payment of income tax; exemption from the Special Local Agricultural Product Tax and the Occupation of Cultivated Land Tax; and the improvement of incentives by local authorities.

(Source: China Legal Change, June 26, 2002)

Better Visas and Residence Status for Foreign Investors and Senior Personnel

The Regulations on Facilitating Entry into the Country and Residence for Foreign Senior-Level Skilled Personnel and Investors were issued by the Ministry of Public Security, the Ministry of Foreign Affairs, the Ministry of Education, the Ministry of Science and Technology, the Ministry of Personnel, the Ministry of Labor and Social Security, the Ministry of Foreign Trade and Economic Cooperation, the State Council Office of Overseas Chinese Affairs and the State Bureau of Foreign Experts on March 26, 2002.

The Regulations were transmitted by the General Office of the State Council on April 29, 2002. The Regulations set forth rules governing the grant of 2 to 5 year multiple-entry F visas (visiting visas) and 2 to 5 year multiple-return Z visas (work visas).

Among the foreigners that can qualify for these special visas are:

- senior management personnel who hold the position of assistant general manager or a higher position in enterprises or institutional units or enjoy equivalent treatment and important professional personnel; and,

- persons who invest US\$ 1 million or more in state key poverty relief development counties in Western China or Central China or who invest US\$ 3 million or more in other areas as well as management personnel and professional personnel sent to China by foreign enterprises or other economic organizations that meet such requirements.

The Regulations also set forth the application procedures for such visas.

(Source: China Legal Change, June 26, 2002)

增值税

"Zeng Zhi Shui"

(Value Added Tax)

营业税

"Ying Ye Shui"

(Business Tax)

消费税

"Xiao Fei Shui"

(Consumption Tax)

所得税

"Suo De Shui"

(Income Tax)

"Providing an alternative in China"

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