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"P.R.C Accounting System for Business Enterprise Seminar" - Detailed seminar scope and timetable

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Major Changes in the New Taxation collection and Administration law

Effective as of **October 15, 2002**, the State Taxation Bureau has introduced new regulations relating to the collection and administration of corporate taxation.

The major changes in these regulations include:

- **延税程序**: Procedures changed on taxation filing delay
Even if a permit for delayed taxation payment is granted, the tax payer should pay the same amount as paid in the previous tax payment period with the remaining tax payment to be made within the extended payment period.
- **延税许可**: More difficult to obtain delay permits for taxation filing
The permit should be approved by the Taxation Bureau at Provincial level. (formerly only by County level government)
- **滞纳金率**: Late payment fee charge rate changed
The rate of late payment fee has been changed from 0.2% per day (equivalent to 73% per year) to 0.05% per day (more in line with current market rates).
- **退税利息**: Interest on tax refund delay
The tax payer has the right to request a tax refund (with interest) if any overpayment is found to be made within three years. The interest rate would be the same as the current interest rate on bank saving accounts.

- **ÆóÒμ°ĩ²ç;ç·ÖÁçÒªÊÂĩË, æÖª Mergers or divestitures**
Any Merger or Divestiture activity should be reported to the tax authorities in advance. When the tax payer intends to merge or divest any assets, liquidation procedures and taxation payments should be finalised and expressed to the tax authority, otherwise tax liabilities will be borne by the new enterprise.
- **°Ë¶"Ö÷Ë°·¶Í\$À©´ó : The tax authorities' scope has been widened**
The taxation authorities have greater powers to identify tax payers and request information.
- **ÒøÐÐÖÊ°ÁÄËËëË°ĩñ¹ÙÀí·¶Í\$: Bank accounts**
The enterprise tax payer should notify to the tax authorities of all bank accounts opened. Furthermore, the enterprise's Tax Registration Certificate should be presented to the bank when the tax payer opens any bank account.
- **ÐÐÖþ¹·£, üÑÏÄ÷: Punishments**
Taxation authorities have more powers to apply harsher punishments.
- **²»°ĩË°ĩñμÇ¼Ç½«±»μδĩúÓªÒμÖ´ÖÖ: Greater powers**
A company's Business License may be withdrawn if they do not complete the required tax registration procedures.
- **ÄËË°Ëê±·½Ë½ÓÐÄË¶àÖÖÑ;Öñ: Tax filing**
Tax payer now has a number of methods for filing taxation including hand delivery, mailing, fax, internet, telex, etc.)
- **ÐÂ¶¶Ö÷¹Ü·¹·Ä÷Ë·ĩü·ÑÖßÓËË÷Òª·çÆ±: Business Taxation**
The regulation emphasises that consumers should request invoices (fa piao) for goods and services purchased.

[Taxation Terms](#)

增值税

"Zeng Zhi Shui"

(Value Added Tax)

增值税

"Ying Ye Shui"

(Business Tax)

Measures to strengthen collection of Individual Income Tax in Beijing

The Beijing Municipal Local Taxation Bureau has introduced new measures aimed at strengthening collection of Individual Income Tax collection from **Key Tax Payers ("KTP")**.

According to the regulations, Key Tax Payers (KTP) include individuals whose yearly income is greater than **RMB 100,000**, and also includes individuals who are:

1. The legal representatives, General Managers, or principals of the units responsible for withholding IIT.
2. Individuals whose monthly incomes is generated from more than two places, and individuals not responsible for any withholding IIT.
3. Individuals who have overseas (Including H.K., Macao, and Taiwan) incomes.
4. Expatriates bearing IIT in line with tax regulations.
5. Those who should declare IIT by themselves according to the ratification from the taxation authorities.

The major changes in the regulations include the following :-

Tax filing:

1. The tax bureau shall issue the Taxation Proceeding Notice to the KTP or his/her employer. In such cases a KTP must file the Individual Basic Information Form through the IIT Management Information System of Beijing Local Tax Bureau (www.tax861.gov.cn) or other relevant procedures so as to set up the filing and registration for the KPT.
2. Individual Basic Information Form of the KPT working for an enterprise should be filed

消费税

"Xiao Fei Shui"

(Consumption Tax)

所得税

"Suo De Shui"

by the enterprise. KPT should file his/ her own Individual Basic Information Form if he/she are not working for any enterprises. The KPTs mentioned in the above individual list from No.2-5 should file the Individual Basic Information Form themselves and the employer should also file the Individual Basic Information Form.

3. KPTs and the withholding units should maintain copies of the Individual Basic Information Form. Any changes in the basic information should be revised through IIT Management Information System within 30 days.

4. The tax authority will review the Individual Basic Information Form filled by the KPTs and their employing enterprises, and has the right to request supporting materials.

Declaration and Tax Payment:

1. When declaring IIT, Withholding agents (employers) should file and declare Withholding Tax Details Report for each KPT through the IIT Management Information System in addition to filing of the Withholding IIT Report to the taxation authority directly (hard copy).

2. KPTs listed above (from 2-5), regardless of whether the withholding agents have paid the individual income tax as required, should declare the IIT through the IIT Management Information System before 7th of every next month, including filling the KPT IIT Report.

If the KPT have paid any IIT to other countries or districts' taxation authorities, the relevant tax payment certificates should be provided to deduct the IIT liability accordingly.

3. IIT payment may be postponed when the KPT encounters a force majeure situation. In these circumstances the KPT must apply for extension to the relevant taxation authorities.

4. *Punishment:* If the KPT and the relevant withholding units do not report the documents (Individual Basic Information Form, KPT IIT Statement, and Withholding IIT Details Statement) to the taxation authority as required, the tax authority may punish the KPT or the withholding units fine a minimum of £2,000 up to £10,000.

If the withholding agent or tax payer refuses to declare IIT or files a false tax declaration, the responsible party is liable to pay the due IIT, a late fee, and a fine of more than 50% and less than 5 times of the IIT due.

5. The Taxation authority will maintain the privacy of tax payer's IIT information.

6. KPT may entrust a tax agent to file Individual Basic Information Forms, declare and pay tax or withholding tax on their behalf.

These regulation will come into force as of November 1st, 2002.

In light of recent crackdowns on Individual Income Taxation in Beijing, these changes are of crucial importance to all tax payers.

Ignorance is not an excuse in front of the tax authorities, and serious penalties are applicable for underpayment or false reporting.

Current Account - Adjustments to FOREX accounts for Chinese-funded entities and FIE

Notice on Issues Related to Making Further Adjustments to the Policies for Administration of Current Account Foreign Exchange Accounts

Issue Date: September 9, 2002

Issuing Authority: State Administration of Foreign Exchange (SAFE)

Effective Date: October 15, 2002.

Summary: To further boost foreign trade in China and reduce operation costs, the Notice unifies the legal regime for the current account of foreign exchange accounts of both the Chinese funded enterprises and foreign invested enterprises.

Under the unified system, the current account foreign exchange settlement account and the special-purpose foreign exchange account will be unified into one current account - foreign exchange account. The Notice also sets a cap on the current account foreign exchange accounts.

In principle, the cap on the current account foreign exchange account of a "domestic" company (including foreign invested companies) is up to 20% of the domestic company's current account foreign exchange receipt in the previous year.

When a domestic company that has no current account foreign exchange receipt in the previous year opens a current account foreign exchange account, the initial cap should not exceed an amount equivalent to US\$100,000. The local SAFE authorities may adjust the caps within their jurisdiction according to the granted cap range that SAFE sets forth for the regions.

The current account foreign exchange settlement accounts and special-purpose foreign exchange accounts opened before the Notice may continue to be used according to their original cap. However, domestic companies must go through the procedures with the local SAFE authorities for combining of foreign exchange accounts.

Six foreign banks approved for forex services in Beijing

(22 November 2002) Six more foreign banks have gained government approval to offer foreign currency services to domestic residents in Beijing.

The six are Citibank, Chicago-based Bank One, Dresdner Bank, Austria's Raiffeisen Zentralbank Osterreich, Hong Kong's Nanyang Commercial Bank^a which is a subsidiary of Bank of China (Hong Kong) Ltd.^a and the Development Bank of Singapore, according to the People's Bank of China (PBOC).

The Hong Kong & Shanghai Banking Corp. was the first to be approved for such business in both Beijing and Shanghai.

The central bank may allow the foreign banks to charge fees for their services in accordance with international practices, Wednesday's Beijing Chenbao (Beijing Morning Post). Currently few services by Chinese banks are fee-based.

PBOC also announced this week that foreign banks would be allowed to offer Chinese currency services in the cities of Guangzhou, Zhuhai (Guangdong), Qingdao, Nanjing and Wuhan starting Dec. 1.

Foreign banks can apply to conduct yuan business in four cities^a Shanghai, Shenzhen, Tianjin and Dalian.

By the end of September, 181 overseas banks had set up operations in China.

(source: ChinaOnline, November 25, 2002)

Performance industry in China to undergo major changes

China's performance industry is undergoing a series of changes. For one, it will thoroughly eliminate restrictions on domestic-capital ownership and grant fair treatment to organizers.

Moreover, it will introduce contract and agent systems and regulate and develop the industry to enrich people's cultural life, Xinhuashe (Xinhua News Agency) learned last week from the working conference on the administration of the national cultural market held by the Ministry of Culture.

China has made various adjustments to its policy on commercial performances, as seen in the ministry's recently revised and published rules.

The rules will be implemented from Oct. 1 and cover on-stage performance activities such as music, dramas, dances, acrobatics, magic, circuses, folk arts, puppet shows and fashion shows.

(Source: ChinaOnline, October 25, 2002)

Special Seminar Opportunity - "Accounting System for Business Enterprises"

LehmanBrown China is pleased to announce a seminar to explain the inner workings of the new "Accounting System for Business Enterprises" in Beijing.

These seminars present an opportunity for bookkeepers, accountants, financial managers and directors, as well as other interested parties, to get up to date on the changes and application of the new Accounting System for Business Enterprises in China which is mandatory for all companies in China from January 1, 2002. With the crackdown on taxation, especially for FIE companies, currently underway this seminar is integral for anyone preparing, interpreting or using financial statements in the PRC.

For registration information visit: www.lehmanbrown.com/Seminars.htm or for phone registration call: **Rachel Wan, Tel: (86 10) 8532 1720** today.

Space is available for a maximum of 20 participants at each 2 day seminar so be sure to book early.

"Providing an alternative in China"

insights@lehmanbrown provides updates of the latest 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 unsubscribe 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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