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INTERNATIONAL ACCOUNTANTS

[insights@lehmanbrown](mailto:insights@lehmanbrown)

**TAX NEWS** Individual Income Tax Cut in Beijing

Residency Laws Eased for Foreigners in Shanghai

Tax Crackdown Aimed at Multinational Firms

Insurance Companies Allowed to Trade Forex Funds

China to Remain Top Global Destination for FDI in 2003

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## Individual Income Tax Cut in Beijing

Beijing has taken the lead in cutting income taxes for individuals by increasing the tax base. Under the new rule, from September the monthly income tax base will rise from the existing 1000 RMB to 1200 RMB meaning employees in Beijing will have to pay tax on the portion of their income exceeding 1200 RMB each month, compared to the current level of 1000 RMB.

According to the local Beijing taxation bureau, the new rule was implemented to meet the city's rapidly increasing living standards.

The tax cut has received warm reactions from tax experts with many believing that the tax rule indicates a positive step towards Beijing's continued local economic development.

A senior Beijing taxation consultant stated that: "The rule will help readjust social distributions and will best benefit the ordinary people who live on salaries."

The monthly income tax base is levelled at 800 RMB in most areas of China. Though in areas where living costs are deemed to be higher, the income tax base is raised accordingly, and currently stands

at 1000 RMB in Shanghai and 1400 RMB in Shenzhen.

### **Residency Laws Eased for Foreigners in Shanghai**

Foreign experts and senior managerial staff from multi-national companies in Shanghai may now apply for foreign residence permits valid for two to five years. According to the director of Shanghai Exit-Entry Administration of Shanghai Public Security Bureau, the new policy is aimed to provide more convenience to business and educational exchanges between Shanghai and other countries.

Foreigners may also obtain working visas for the same period as their residence permits. Meanwhile, for those companies in Shanghai with US\$30 million or more registered capital, their foreign legal representatives, general managers and deputy managers may also apply for residence permits valid for two to five years. Departmental managers and ordinary foreign staff may obtain three-year and two-year residence permits respectively.

Also of note is another new measure, effective from the end of this year, that allows foreigners coming to Shanghai on urgent business to apply for visas after they arrive at Pudong International Airport.

### **Tax Crackdown Aimed at Multinational Firms**

It is believed that Chinese customs officials will launch a nationwide crackdown later this year against multinational companies who evade payment of duty and taxes. The crackdown may lead to hefty fines and perhaps disruptions to operations for those companies under scrutiny in the coming months if they break the law.

The State Administration of Taxation (SAT) said in July this year that China had lost more than 30 billion RMB annually in recent years due to tax avoidance by multinational corporations. Experts said the true figure is far more than 30 billion RMB since personal income tax and tax on turnover were excluded from that total.

Many Sino-foreign joint ventures in China are thought to be taking advantage of regulatory loopholes and are often engaging in illegal import and export practices either through ignorance or a misunderstanding of Chinese law and regulations.

Though the crackdown has not as yet been officially publicised, it is believed to be in response to a central government directive to the State Customs Administration to raise an additional 100 billion RMB in revenue this year, to augment government coffers. Customs tariffs are a vital source of such income and authorities have been increasingly active in enforcing regulations to generate funds.

"The regulation and implementation of China's customs regime has been rapidly evolving, especially with a tightening up in enforcement. This means that import and export practices that may have once been acceptable could now be outlawed or subject to tariffs that directly affect foreign firms," said the president of an international consultancy firm.

*Taxation Terms*

## 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)*

### **Insurance Companies Allowed to Trade Forex Funds**

The State Administration of Foreign Exchange (SAFE) has announced that insurance companies, including foreign insurers operating in China, will be allowed to trade their foreign exchange (forex) funds in the inter bank market starting from October 1st.

The move will help insurance firms better manage their forex funds, which are mostly deposited in the banks, and improve their capability to settle claims.

After they obtain SAFE's approval, insurance firms can borrow or make loans of no longer than four months at the Shanghai-based China Foreign Exchange Trade System.

An insurer's total inter bank forex borrowings or lendings cannot exceed 50 per cent of its owned forex capital, and single loans cannot be higher than 10 per cent of the borrower's forex capital or 15 per cent of the lender's forex capital.

Chinese insurers have long been lobbying the government for more freedom in investing their indemnity funds, which they say is key to ensuring their repayment capacities. Insurance regulators are also reportedly considering allowing insurance companies to buy bonds in foreign markets.

### **China to Remain Top Global Destination for FDI in 2003**

China will remain the world's hottest destination for foreign direct investment this year, topping the US for the second year in a row, according to a survey published recently.

The survey, based on interviews with more than 150 chief executives and other corporate decision makers worldwide during the past four months, suggests that China is on track for a strong result even though 2003 is proving to be another weak year for global flows of foreign direct investment.

As a result of this rush to China, Asia is likely to overtake Europe as an investment destination for the first time, said the American based consultancy firm that conducted the survey.

The survey represents a positive signal from investors following China's fumbling response earlier this year to the outbreak of severe acute respiratory syndrome (SARS). The survey found that SARS has had no impact on China's attractiveness to investors. Even though Beijing has reported declines in investment for July and August, compared with the same months last year, Chinese leaders predict the country will attract US\$57 billion in foreign investment this year, compared with US\$52.7 billion during 2002.

The survey underscores China's continued allure: robust growth and limited currency risk in an otherwise cloudy global business environment. One-third of executives, the highest rate for any nation, said they expect China's prospects to improve this year. Only 5.4 per cent viewed China's outlook negatively.

## 所得税

"Suo De Shui"

*(Income Tax)*

## *"Providing an alternative in China"*

**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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