



Declaring, Paying Profits and Dividend Out of China

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Declaring, Paying Profits and Dividend Out of China

Now that the annual audit cycle and tax filing season is over in China, companies that have profits retained may now wish to distribute these as dividends. The experience is a relatively straight forward albeit still bureaucratic, all of which is covered in this article

For profits and dividend to be repatriated, usually a company has to go through Annual Audit which requires a statutory annual audit report, Corporate Income Tax ("CIT") reconciliation report, and have other supporting documents as required by the bank.

The process begins with the tax authorities confirming the total amount that can be repatriated, after checking if the CIT has been paid, the losses have been used for offset and covered, and if the Reserves Fund has been withdrawn or needs replenishing (see below). All taxes must be cleared with the tax bureau before any payment can be made. It is possible to make a triple agreement between a Chinese Permanent Establishment, bank and local tax bureau to deduct any withholding tax routinely making sure all tax requirements are met to facilitate transactions out of China.

The Reserves Fund is made up of 10% of the net annual profits building up until the total reserve fund equals 50% of the company's total registered capital in China. However, the reserve fund can be used to cover losses, cover for operational costs, or reinvested in the company.

These procedures are usually performed around June or July after the Annual Audit is completed for the previous year-end, which will then allow the company to repatriate the funds from the year the audit covers.

A Foreign Investment Entity ("FIE") can postpone profit distribution to the next year, but if a payment is needed for profits that have not been audited, then an interim audit would be required. However, how much of the profit the FIE will share, or not, must be decided amongst its shareholders and a profit distribution plan to be drafted amongst the FIE's directors and executives. Once approved the interim audit can then be completed to repatriate profits. To repatriate the profits, the FIE has to withhold the relevant taxes and submit the file to the tax bureaus within seven days before the tax obligation arises.

Those who are tax residents of a country that has a Double Tax Avoidance Agreement ("DAT") with China can submit the related documentation to the tax bureau in charge to receive any treaty benefits. The China tax regulations provide that the standard withholding tax on dividends is 10%, but under some DAT's such as Hong Kong, Singapore, United Kingdom, etc., there is a reduced rate of 5%. China has beneficial ownership regulations that cover the substance of the parent of the FIE that will receive the dividends, which determine whether or not the treaty benefits can be applied.

The transactions of profits above USD 50,000 must get the approval of the tax bureau, below USD 50,000 a transaction can be done without the tax bureau's pre-approval. Transactions of up to USD 200,000 will need approval from the tax bureau and the bank making the exchange will have to report to the State Administration of Foreign Exchange ("SAFE").

In the event of an overseas transaction remaining below USD 50,000, the bank will only need the annual audit report, Corporate Income Tax ("CIT") reconciliation report, and any other documentation legitimizing the company. For an overseas transfer above USD 200,000, the company will have to provide the bank with the Record for Overseas Payment Form, with the seal from the tax authorities, on top of the aforementioned documentation.

Once the bank has been given all the documentation, it will proceed to confirm all the information. In the case of a transaction being above USD200,000, the bank will have to wait for SAFE to Authorize the transaction. After everything has been confirmed, the transaction can be made.

The entire process assuming the annual audit is complete will take about one month, the more significant the transaction, the more time it may take for the bank to prepare, and if the transaction is above USD 200,000 it will take 15 days for the tax bureau to issue the sealed Record for Overseas Payment Form however it can be done while waiting for the bank to prepare.

Any enquiries, please contact LehmanBrown by enquiries@lehmanbrown.com

LehmanBrown International Accountants is a licensed China-focused accounting, taxation and business advisory firm, operating dedicated offices in Beijing, Tianjin, Shanghai, Shenzhen, Guangzhou, Hong Kong and Macau, and with an extensive affiliate network throughout China and in over 100 countries worldwide.



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Founded in 2001, LehmanBrown is a licensed China-focused accounting, taxation and business advisory firm, operating in Beijing, Shanghai, Hong Kong, Macau, Shenzhen, Guangzhou and Tianjin. Our firm also manages an extensive affiliate network, providing service throughout China and reach across the globe.

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综合多年的国际经验和对中国市场的深刻理解和实践体验, 我们向广大国内外的客户提供高质量的专业服务和意见帮助。在雷博国际会计的服务过程中, 我们作为市场中的佼佼者, 您将得到来自中国本土以及其它国家的高级资深专家热忱的咨询帮助。

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US GAAP Audit

IFRS Audit

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Restructuring Background/Credit Checking

Company Deregistration & Bankruptcy

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China Visa Services for Expatriates

Social Welfare Structures

Outsourcing Services

Accounting & Bookkeeping

Budgeting & Forecasting Financial Statement

Preparation Head Office Reporting

Financial Management

Interim Financial Management Finance

Manager Function

CFO Function

Treasury Management

Set-up of Bank Account

Payroll Services

Payroll Processing Setup

Expatriate Employees

Local Employees

Secondment & Temping Service

Taxation Services

Individual Tax Planning (IIT)

Tax Immigration & Investment Review

US & Overseas Personal Income Tax Planning

& Filing IIT Tax Payment Facilitation

Application for Individual Income Tax Refund

Expatriate Staff Individual Income Tax Staff

Filing Local Staff Individual Income Tax

Company Taxation (CIT)

[Tax Consulting](#)

Corporate Tax Planning

Business Restructuring

Value Chain Review

Onshore / Offshore Investment

Transfer Pricing

[Tax Compliance](#)

Tax Due Diligence

Tax Deregistration

Negotiation of Tax Penalties

Tax Refund Application

Tax Representatives for Tax Audit

VAT & Customs Duty Clearance

PRC Tax Receipt Verification

VAT Application

VAT & Sales Tax Filing

Corporate Income Tax Reporting

Specialist Accounting & Risk Management

Internal Controls

Systems

Risk Management

Sarbanes - Oxley (SOX 404)

GAAP, SEC & IFRS Compliance

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US GAAP Financial Statement Preparation

US GAAP Conversion

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GAAP Conversion

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