

# China Business Advisory

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## Update of VAT Reform in China

On 21 January 2013, the Ministry of Finance (“MOF”) and the State Administration of Taxation (“SAT”) jointly announced Circular Caishui [2012] No. 84 which provides guidance notes for Pilot VAT calculation and payment allowing a head office in a VAT Pilot region to compute and pay VAT on

a “collective basis” for all Pilot services provided by the head office and its branches in China.

Under the guidelines, Pilot VAT or Business Tax (“BT”) paid by branches locally (even if the branches are in non-Pilot regions) can be used to offset against the VAT payable by the head office “collectively”.

## Simplified Rules for Direct Investment Related Foreign Exchange Transactions

The State Administration of Foreign Exchange (“SAFE”) issued “Notice on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment” (Huifa [2012] No. 59 or “Circular 59”) providing guidelines on simplifying administration procedures for foreign exchange, including the removal of the need for SAFE approval for the following transactions of foreign direct investment nature:

1. Opening of foreign exchange accounts, deposit of funds, buying, selling and remitting foreign exchange;
2. Domestic transfers of foreign exchange funds for routine business purposes of foreign direct

investment nature;

3. Reinvestment by foreign investor using legitimate income generated in China; and
4. Reduction of capital.

Reinvestment in China by foreign-invested Chinese holding companies no longer requires foreign exchange registration and capital verification. Circular 59 also relaxes restrictions on activities of foreign direct investment nature including the setting up of foreign exchange accounts, number of foreign exchange accounts and, purchase and remittance of foreign exchange by FIE in places other than where it is incorporated. Domestic entities will be able to make offshore loans using foreign exchange loan obtained in China, and FIEs will be able to make loans to their overseas parent companies. Other procedures previously requiring registration and submission of physical documents with SAFE are also simplified to online filing with the e-system of SAFE. This Circular became effective from 17 December 2012.

### **RMB will Change the Way the World Does Business**

According to an article from *The Economist* on 9 February 2013, TESCO, a supermarket chain, which is buying a lot of products from China, is now planning to pay its Chinese suppliers with RMB (official name Renminbi, meaning “people’s money”), China’s own currency. In the last quarter of 2012, almost 900 billion yuan (14%) of foreign trades are settled in this currency, up from almost nothing three years ago. China accounts for about 15% of the world’s money supply but until mid-2009 almost all of the money was confined to flow within its borders.

Although RMB remains a remote competitor for international trade settlement with USD and EURO, its increasing importance cannot be ignored, especially for companies and individuals that are involved in purchasing from or selling to China. Adopting RMB for trade settlement simplifies the settlement process and avoids having to handle the requirements set out by SAFE, the foreign-exchange regulator in China.

## Service Highlight

It is our mission to provide useful information to foreign companies who operate in China and help them in any way we could with our experience in China. For any assistance you may need from us, you are encouraged to contact our Marketing Executive, Ms Mary Li, on +852 3579 8745 or email her at [maryli@sinobridge-consulting.com](mailto:maryli@sinobridge-consulting.com).

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