

Two Tracks of China's Foreign Exchange Regime

Where the yuan converts freely — and where only after registration

Zone 1

Current account transactions

- Trade in goods
- Services
- Income

Free conversion — with supporting documents

Zone 2

Capital account transactions

- Registered capital injection
- Foreign loans
- Direct investment

Registration required, within set limits only

Common requirement for both tracks: the transaction must be genuine

SAFE Guidelines on Foreign Exchange Businesses under Capital Accounts, 2024 edition

Who Actually Registers FX Transactions

Circular 13 (Hui Fa [2015] No. 13) handed registration over to banks

Since June 1, 2015



Foreign-invested enterprise (FIE)

Submits documents to its bank



Authorized agent bank

Reviews the documents and enters the data into the system



SAFE

Indirect oversight via the capital account information system



~~A SAFE window for filing documents~~

does not exist

Important

A refusal by the agent bank is effectively a refusal by the regulator

FX Registration on Entry

Three steps between the business license and the first operating payment

Up to 30 days after account opening

Step 1

Open a capital account

After the business license is issued. No account — no capital injection



Step 2

Complete FX registration

The agent bank enters the FIE's data into the SAFE system



Step 3

Inject and convert capital

Converted as funds are spent, tied to actual expenses

Registered capital must be paid in within 5 years of the company's registration date

Two Ways to Fund a Company in China

Capital can't be taken back; a loan is registered and capped

Registered capital

- Permanent investment
- Paid in within 5 years
- Cannot be withdrawn
- Returns via dividends only

Foreign shareholder loan

- Registered as a cross-border liability
- Thin capitalization limit of **2:1** for non-financial companies
- **5:1** for financial companies
- Interest above the limit is not deductible for corporate income tax

Unregistered loan

The bank will clear neither the principal inflow nor interest payments

What the Bank Checks on Current Account Payments

Goods are proven with shipping documents, services with justification of the amount

Path 1

Payment for goods

- ✓ Contract and invoice
- ✓ Shipping documents
- ✓ Bill of lading, customs declaration
- ✓ Proof of actual shipment

Path 2

Payment for services

- ✓ Contract and invoice
- ✓ Justification of the amount
- ✓ Withholding tax: **10%** plus indirect levies
- ✓ Withheld by the Chinese payer as withholding agent

The first payment to a new counterparty gets stricter scrutiny

Review takes 2–3 business days longer

Four Conditions for Repatriating Dividends from China

The bank checks every step under SAFE supervision

10% → 5%

1

Annual financial statement audit

Distributable profit confirmed

2

Loss offset and reserve

Prior-year losses offset; 10% of annual profit allocated to the statutory reserve (up to 50% of registered capital)

3

Tax payment

Corporate income tax paid; dividend withholding tax withheld

4

Tax filing for the payment

Outbound payment filing submitted

The base withholding tax rate is 10%

A double tax treaty with the investor's country may lower it — some treaties allow 5% for a holding of at least 25% and beneficial owner status

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