

Overseas lenders petition for tax delay

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A group of overseas banks have asked the government to delay a newly imposed interest tax on overseas borrowings, although the tax's levy is in line with international practice, media reports said. In a petition letter, 36 overseas lenders said the withholding tax on interest payments on all loans to mainland banks from overseas creates an excessive burden. The petitioners included HSBC, Citibank, Standard Chartered and Bank of East Asia.

In the petition signed on Dec 23, banks asked that they only be required to pay the withholding tax incurred after Dec 4 with the back payments put on hold. The tax is retroactive to Jan 1 this year. However, an unnamed overseas banking source said the tax is also levied in other countries and regions. So overseas banks on the mainland must adhere to the law if the government does not approve the delay, Southern Metropolitan reported yesterday.

The Guangzhou-based newspaper said the mainland government levied a similar tax in mid-1997 but suspended it by that year's end after intense lobbying from overseas banks.

On Dec 12, the mainland revived the tax in line with its latest corporate income tax law, which charges about 10 percent in withholding tax on income from interest. The law took effect on Jan 1 this year.

Banking professionals estimated the tax would add 3 to 5 percent to banks' overseas borrowings costs.

That concerns overseas banks on the mainland, which are more reliant on overseas sources, such as their parent companies, for borrowings.

Central University of Finance and Economics professor Guo Tianyong said it would be unfair to domestic banks if only overseas lenders enjoyed lower overseas borrowings costs, as the mainland's interest rate is much higher than overseas rates. (China Daily)

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