The Ways of Moving Money Out of China by Individuals

Description



USD 50,000 per year?

This is a hot topic in today's China: how to move money in China to a foreign country. With the backdrop of the trade-war and tech-war between China and USA simmering with no assuring sign of cooling down, China economy has been hurt somehow, and 2019 is a tough year for China and in the meantime, United States is still looking buoyant, there is a strong demand for investing in USA. The question is: how to take the China money out of China.

In this post, I would just focus on transferring money out of China by individuals, foreigners or Chinese. There are other ways that can be utilized through corporate transactions, but not covered by this article.

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I. Foreigners

The other day, a client from Europe consulted me about his contemplated divorce with his cheating Chinese wife. One of the his headaches is how he can take money out of China after selling the apartment registered in his name. He said he had known for long that a foreigner can only take USD 50,000 out of China, and it would take too long a time to move his millions of RMB to his home country.

What is the often mentioned USD 50,000 quota?

The USD 50,000 annual quota is the equivalent amount of foreign exchanges that a person (foreigner or Chinese) in China can convert into RMB fund, and that a Chinese citizen can purchase with RMB fund, within a calendar year, without the necessity of providing transaction/deal documents to support such conversion or purchase. In other words, the persons seeking to convert foreign exchanges into RMB fund or to purchase foreign exchanges may just produce their identity document to the bank without proving why they need to make such conversion or purchase.

Read the preceding paragraph again. For a foreigner, the USD 50,000 is the quota for them to convert into RMB fund, but not the quota for them to purchase foreign exchange with RMB money. For a Chinese citizen, it is a quota for both conversion and purchase.

So in the discussion of taking money out of China by foreigners, this USD 50,000 quota has nothing to do with it.

Here are some of the ways that foreigners can employ to move Chinese RMB denominated fund out of China:

(1) under the current accounts, any legitimate earning in RMB can be converted into foreign exchanges and remit the same out of China. Legitimate earnings include your salaries/wages, your rentals generated by your property in China, license royalties, and dividends received from your invested China company. But when you apply to a bank in China to do the conversion and remittance, you need to prove how the money is earned and the payment of relevant taxes.

(2) under capital accounts, a foreigner can legitimately transfer out of China the sale proceeds arising from sale of real estates in China. The property so sold can be that you bought in the past or that you inherit from a family member who can be either a foreigner or a Chinese citizen.

Also as a capital account, foreigners can also transfer share sale proceeds out of China after they sell their shareholdings in a China foreign-invested company or limited partnership enterprise. China foreign exchange administration has laid down detailed rules on such route in terms of converting and transferring money out of China. However, if a foreigner inherits shares in a China company, things can be very tricky and complicated, you may refer to another post on this blog about inheritance of corporate shares in a China company: inheritance-of-corporate-shares-of-a-china-company-iv

(3) Carrying Cash Across Border

This is allowed as well. In the case of foreign exchange, an amount of USD 5000 cash can be carried each time crossing the border (further rules apply to multiple round trips within a day or a short period); in the case of RMB cash, the maximum amount is RMB 20,000.

II. Chinese Citizens

We all heard of stories about Chinese people purchasing foreign real properties in USA, Canada, Australia and even in Europe. One cannot help wondering how those money is moved out of China in such large magnitude given that China has maintained very strict foreign exchange control over money flow across its borders.

As a lawyer engaged in cross-border estate planning legal services for a decade, I am trying to tell as many ways as I know.

(1) Utilizing USD 50,000 annual quota

As discussed above, every Chinese citizen has an annual USD 50,000 foreign exchange quota whereby he or she can directly purchase from a bank in China, and this amount of foreign exchange can be wired into a bank account in a foreign country.

This is probably most widely used legal and lawful method of transferring money out of China. You may also hear of news to the effect that China banking system has tightened control over this kind of “ants moving” activities. If the banking monitoring system spots suspicious ants moving activities of

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converting RMB into USD and remitting the money into one foreign bank account within a short period, the persons involved may be investigated and sanctioned.

(2) Overseas Investment

Actually, this is not a good idea of taking money out. Chinese citizens cannot invest in foreign countries in their individual capacity, but can only invest by incorporating a company in China first and use that corporate vehicle to invest. However, such official way of making overseas investments is heavily subject to governmental scrutiny on what business you are going to invest in the foreign country and how much money you can invest. To many Chinese people that want to purchase foreign stock or purchase foreign real estate properties, this route is not possible.

(3) Carrying Cash Across Border

Yes, this is fine as well. But there is a restriction on how much you can legally carry across China borders/customs. In the case of RMB cash, as mentioned above, the quota is RMB 20,000 and in the case of USD cash, the quota is USD 5000, in each case for both foreigners and Chinese citizens.

(4) Foreign Exchange Master or Visa Credit Cards

This is also a widely acknowledged way of taking money out of China. Chinese citizens travelling abroad can swipe their master or visa credit cards for purchasing luxury goods and then cancel the transaction by asking the vendors to return money in USD. This can incur some high rate costs, but it may be worth for some people.

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However I just recently found out another way of using master or visa credit cards to transfer money out of China. It is an investment or wealth management products launched by a Cayman trust company that sells such products to Chinese customers. Chinese customers don’t have to travel abroad to swipe their credit cards but do it within China.

This is the amazing point of this product. The money will go into an account client opens with the trust company in joint names (parent-child structured accounts), and the money will be further directed to a Cayman insurance company (segregated portfolio company, SPC) which will issue an insurance policy to the customer and the money will be finally invested in S&P indexed stock or other funds chosen by the customers. Depending on the types of products (often with different investment terms), the products allow the customers to withdraw cash value of their accounts (keeping a certain amount of low value in the account) outside of China and put the withdrawn cash money in their offshore bank accounts opened with a foreign bank, and in certain circumstances, up to a percentage of 90+% investment amounts can be withdrew and used elsewhere as the customers wish.

This is not just a way to move money outside of China. It can be considered as a normal way of investing in foreign markets to diversify client’s portfolios in China, and it can also be used as a way for purpose of emigrating and child education in foreign countries and lastly it can be used for estate planning purposes for rich Chinese families.

This is so far the best way of moving money out of China without many risks and costs. If your Chinese friends and clients need such services, please contact the blogger.

(5) Money Swap at Both Onshore and Offshore Sides

This is again another widely used method of getting money out of China. For example, if I need a certain amount of USD for investing in USA, I can give the equivalent amount of RMB here in China to a person who needs RMB and that person will transfer the desired amount of USD to my bank account in HK, Singapore and USA.

This is what the underground banking people do to facilitate money outflow.

(6) Trading Route

This is something I hear a lot in the market and have finally come to know a couple friends that can really arrange such transactions for people. Generally, this is employed when people need to transfer a big amount of money outside of China. For small amounts, money swap mentioned above will make do.

The deal flows in much the same way of money swap where the client (Chinese people who need to transfer money outside China) pays a certain amount of RMB to a company in China that is engaged in huge international trading business (energies, minerals) and the company will later on transfer an equivalent USD to the bank account designated by the client in the foreign country. The cost is generally 2-3% of the total amount so moved.

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