

## China Insight – Chinese Tax Regulation Update



Circular Number	Issuance Date	Effective Date	Topic	What is new?
Announcement [2025] No. 2 jointly released by the Ministry of Finance ("MOF"), the State Administration of Taxation ("SAT") and the Ministry of Commerce	2025-06-27	2025-01-01	Integrated tax credit policy for foreign investors' direct reinvestment of distributed profits	<p>This integrated policy framework and implementation rules under the Announcements provide foreign investors with a tax credit against their PRC Corporate Income Tax ("CIT") payable if they directly reinvest the profits distributed from the PRC tax resident enterprises into eligible domestic projects. The key points include the following:</p> <ul style="list-style-type: none"> <li> <b>Tax credit benefit</b> <p>Foreign investors reinvesting distributed profits into eligible direct investments can use 10% of the reinvestment amount as a cap to credit against their PRC Withholding Tax ("WHT") payable for such incomes as dividends, interests and royalties to be received from the dividend distributing enterprise. The cap percentage above can be lowered to the dividend WHT rate offered by the relevant bilateral double taxation treaty ("DTT") if the DTT offers a rate lower than 10%. Once 10% or the lowered cap percentage is chosen, the same rate shall apply as the WHT rate when the deferred dividend WHT becomes payable due to the disposal of the reinvested shares.</p> </li> <li> <b>Holding period and treatment of early withdrawal</b> <p>In order to qualify for the preferential tax treatment, the foreign investor shall</p> </li> </ul>
SAT Announcement [2025] No. 18	2025-07-31	2025-01-01		

				<p>hold the reinvested shares for at least five consecutive years (i.e., 60 months from the month stated in the Profit Reinvestment Information Form). The creditable tax amount shall be proportionally reduced based on the ratio of the reinvested amount that has been withdrawn (through capital reduction or liquidation of the reinvested company or disposal of the reinvested shares) accounting for the total reinvestment amount, if the reinvestment is withdrawn within the required holding period. In case the credited WHT amount has exceeded the reduced creditable quota, the over-credited tax amount plus the late payment interest shall be made up within 7 days after withdrawal of the reinvestment.</p> <ul style="list-style-type: none"> <li>• <b>Eligible reinvestments</b> <p>The invested enterprise must operate in an industry listed under the Catalogue for the Guidance of Foreign Investment Industries (Encouraged Category). The investment form must be capital increases (through contribution to paid-in capital or capital reserve), establishment of new enterprises and share acquisitions from non-affiliated enterprises.</p> </li> <li>• <b>Flow of the dividends used for reinvestment</b> <p>Dividends distributed for direct reinvestment, in form of cash or non-cash assets, must be transferred directly from the profit-distributing enterprise to the re-invested enterprise without detouring through any other entities or individuals.</p> </li> <li>• <b>Multiple reinvestments and withdrawal sequencing rules</b> <ul style="list-style-type: none"> <li>✓ Tax credit quota must be calculated separately by each profit-distributing enterprise when the same foreign investor uses the profits distributed from various PRC tax resident enterprises for reinvestment.</li> <li>✓ In case the reinvestment withdrawn by the foreign investor includes the amount that qualifies for the tax credit policy and has already been</li> </ul> </li> </ul>
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				<p>subject to tax credit ("Part A"), the amount that qualifies for the tax credit policy whilst not being subject to the tax credit yet ("Part B") and the amount that does not qualify for the tax credit policy ("Part C"), Part A shall be treated to be withdrawn first and it will be followed by Part B which will be further followed by Party C.</p> <p>✓ In case multiple reinvestments are made by the foreign investor in the same PRC tax resident enterprise, the sequence of withdrawal of the reinvestment shall follow the "first-reinvest, first-withdraw" principle when the withdrawn reinvestment amount that has been subject to tax credit is determined.</p>
<p>State Council Decree No. 810</p> <p>SAT Announcement [2025] No. 15</p> <p>SAT Announcement [2025] No. 16</p>	<p>2025-06-20</p> <p>2025-06-26</p> <p>2025-06-26</p>	<p>2025-06-20</p> <p>2025-06-26</p> <p>2025-10-1</p>	<p>Regulations on tax information reporting by internet platform enterprises</p>	<p>Three recent regulations provide comprehensive guidelines for Internet Platform Enterprises ("IPEs") concerning tax information reporting, tax withholding declarations and proxy declarations. These regulations give a signal that the taxation of online business will be reinforced.</p> <p>The concerned IPEs include the operators of the following internet platforms:</p> <ul style="list-style-type: none"> <li>✓ e-commerce platforms</li> <li>✓ live streaming platforms</li> <li>✓ logistics platforms</li> <li>✓ flexible staffing platforms</li> <li>✓ service platforms</li> <li>✓ platform for providing aggregation services to other internet platforms</li> <li>✓ Mini-programs and quick apps providing services for platform operators / individual vendors (providing services through the platform) and platforms supporting these applications</li> </ul> <p>IPEs must submit detailed identity and income information of the operating entities and the individual vendors that sell goods and provide services through the platforms in time. Specific forms such as the basic information reporting form, income information form of operating entities and</p>

				<p>individual vendors and tax-related information form of online streamers and collaborators must be filled out and submitted each quarter.</p> <p>The IPEs should withhold from the service incomes and pay Individual Income Tax for the individual vendors providing services through the platforms. They also need to be authorized by the individual vendors to declare and pay VAT on the individuals' behalf. The IPEs that have completed tax withholding and proxy declaration can deduct labour remunerations paid to the individual vendors from their taxable income for CIT purposes based on the relevant tax filing returns and the tax payment certificates substantiated with the genuine business records.</p>
Announcement [2025] No. 4 jointly released by the MOF and the SAT	2025-07-31	2025-08-08	Adjustment of VAT policies on interest incomes derived from treasury and financial bonds	This Announcement aims to resume collection of VAT imposed on the interest incomes derived from the treasury and financial bonds issued on and after 8 August 2025. VAT exemption treatment is still kept for the interest incomes derived from the treasury and financial bonds issued before 8 August 2025, including subsequent tranches issued under the same bond program after 8 August 2025, till maturity.
Cai Guan Shui [2025] No. 12 released jointly by the MOF, General Administration of Customs ("GAC") and the SAT	2025-07-18	Upon commencement of the closed operation ("CO") of the Hainan Free Trade Port ("FTP") (expected to be 18 December 2025)	Tax policies on goods movement across the "First Line", "Second Line" and within the Hainan FTP	<p>It is expected that the Hainan FTP will be subject to the CO from 18 December 2025 according to the public announcement of the central government of China. CO refers to the general situation that Hainan Island is treated as a real free trade port area where the goods movements across the "First Line" between Hainan and abroad are conditionally free from customs supervision and across the "Second Line" between Hainan and Mainland China are subject to PRC customs clearance. The key provisions of the Circular are summarized as follows:</p> <ul style="list-style-type: none"> <li> <b>First Line (between Hainan FTP and overseas) administration</b> <ul style="list-style-type: none"> <li>✓ The goods imported from abroad to Hainan FTP that are listed in the <i>taxable goods catalogue</i> shall still be subject to import duties, import VAT and Consumption Tax.</li> <li>✓ Qualified enterprises and non-enterprise entities registered in the Hainan FTP ("Preferential Entities")</li> </ul> </li> </ul>

				<p>may import the goods beyond the <i>taxable goods catalogue</i> under the zero-tariff treatment, unless voluntarily given up by the Preferential Entities.</p> <p>✓ The list of Preferential Entities is subject to dynamic adjustment by the Hainan Provincial Government which will file the list with the MOF, the GAC and the SAT.</p> <p>• <b>Second Line (between Hainan FTP and Mainland China) administration</b></p> <p>✓ When the zero-tariff goods and the products processed based on the zero-tariff goods enter Mainland China from the Hainan FTP, the Preferential Entities shall retroactively pay import duties, import VAT and Consumption Tax based on the dutiable value of the imported materials, unless already paid when the materials entered the Hainan FTP across the First Line from abroad or were circulated within the Hainan FTP.</p> <p>✓ In the event that the goods entering Mainland China across the Second Line from the Hainan FTP are processed by the enterprises of encouraged industries in the Hainan FTP and processing added value accounts for at least 30% of the value of the products, the products are exempt from import duties, but the import VAT and Consumption Tax remain payable.</p> <p>• <b>Goods circulation within the Hainan FTP</b></p> <p>✓ Zero-tariff goods and the products processed based on the zero-tariff goods transferred among the Preferential Entities are exempt from import taxation, but shall still be subject to VAT and Consumption Tax due to domestic sales.</p> <p>✓ Where such goods are transferred from the Preferential Entities to the non-Preferential Entities or individuals in the Hainan FTP, the import duties, import VAT and Consumption Tax should be made up</p>
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				<p>and VAT and Consumption Tax due to domestic sales shall also be paid.</p> <ul style="list-style-type: none"> <li>• <b>Goods subject to “Four Trade Measures” (i.e., quota, remedies, suspension of tariff concessions, retaliatory tariff)</b> <ul style="list-style-type: none"> <li>✓ Zero-tariff goods under these categories remain subject to the relevant national measures when they are imported through the First Line, are circulated within the Hainan FTP or enter Mainland China through the Second Line. Duplicate implementation of the measures shall not exist.</li> </ul> </li> <li>• <b>Special provisions for repair activities</b> <ul style="list-style-type: none"> <li>✓ Zero-tariff goods used for repair of the following equipment can be exempt from import taxation, but shall not be used for the purposes other than the below: <ul style="list-style-type: none"> <li>(i) the foreign aircrafts / vessels which temporarily enter the Hainan FTP and shall be re-exported;</li> <li>(ii) the aircrafts operated by the airline companies whose operation base is in the Hainan FTP;</li> <li>(iii) the vessels registered in the ports of the Hainan FTP and operated by the shipping companies with legal person status and registered in the Hainan FTP; and</li> <li>(iv) the zero-tariff yachts or production equipment.</li> </ul> </li> </ul> </li> </ul>
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