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China Ends 32-Year Dividend Tax Exemption for Foreign Individuals: Who Actually Pays More

By Yvonne Wu, Associate, IPO Pang Shenjun PLLC

From 1 September 2026, dividends paid by foreign-invested enterprises to foreign individual shareholders are taxed at 20 per cent. Official commentary suggests most investors will see no net increase. For one of the most common foreign-investor profiles in China, that is not the case.

I. What the Announcement Says

On 1 September 2026, the Ministry of Finance and the State Taxation Administration jointly issued Announcement 2026 No. 27, effective the same day.[1] The announcement subjects dividends and bonuses received by foreign individuals from foreign-invested enterprises ("FIEs") to individual income tax under the "interest, dividends and bonuses" category, at 20 per cent of the gross amount. It requires the paying FIE to withhold at the point of payment and to file within the first fifteen days of the following month; where the FIE fails to withhold, the individual must pay by 30 June of the following year, or earlier if the tax authority sets a deadline. The announcement simultaneously repeals Article 2(8) of Caishui Zi [1994] No. 20, the provision that had exempted this income since 1994.

II. No Transition Period, and a Sharp Contrast with 2008

The announcement contains no transitional provision. Because the withholding obligation attaches on payment, the prevailing reading is that any dividend paid on or after 1 September is caught, including dividends declared before that date and profits earned during the exemption years.

It deviates from precedent. When China ended the equivalent exemption for dividends paid to foreign corporate investors in 2008, Caishui [2008] No. 1 exempted distributions of profits accumulated before 1 January 2008.[2]

There is no equivalent relief this time.

An FIE that has built up retained earnings over years of tax-free operation will now see its foreign individual shareholders taxed at 20 per cent when those earnings are paid out.

III. Will Your Tax Bill Actually Rise? It Depends on Where You Are Tax-Resident

Commentary carried by state media alongside the announcement argues that the overall burden will not increase, on the reasoning that most Western countries tax their residents on worldwide income, so foreign shareholders were already paying home-country tax on these dividends and can now credit the Chinese tax against it. That holds for one group of investors. It does not hold for several others.

More specifically:

- **Tax-resident in a country that taxes worldwide income, has a treaty with China, and claims treaty relief.** Before 1 September 2026: home-country tax only. From 1 September 2026: Chinese tax at the treaty rate, credited at home. Net effect: broadly neutral, but the tax is collected earlier.
- **Same profile, but treaty relief is not claimed.** Before: home-country tax only. After: 20 per cent in China, with the home credit capped at the home rate. Net effect: an increase wherever the home rate is below 20 per cent.
- **Tax-resident in a jurisdiction that does not tax foreign dividends (e.g., Singapore, the UAE).** Before: no tax. After: 20 per cent, or the treaty rate. Net effect: a genuine new cost.
- **Foreign national who is tax-resident in China and holds the FIE directly.** Before: no tax. After: 20 per cent. Net effect: a full 20 per cent increase with no offset, unless the home country taxes by citizenship (as the US does).

The last profile deserves emphasis. The foreign entrepreneur who lives in Shanghai and owns their WFOE directly was previously paying no tax at all on these dividends. Most home countries stop taxing someone who has left their tax residence, and a tax treaty cannot reduce China's tax on a Chinese-source dividend paid to a Chinese tax resident. For this group, the exemption was a real saving, and it is now gone in full.

Why treaty relief matters in cash terms: take a US-resident individual who receives a RMB 100 dividend, and assume a US rate on it of 15 per cent. If treaty relief is claimed, China withholds 10; the US tax of 15 is reduced by a 10 credit to 5; the total is 15, the same as before. If treaty relief is not claimed, China withholds 20; the US credit is capped at 15; the total is 20, and the extra 5 may be unusable unless the investor has other foreign income to absorb it.

IV. Treaty Relief Is Available, but It Has to Be Claimed

Announcement No. 27 does not mention tax treaties, so the general regime applies. Many of China's treaties limit tax on dividends to 10 per cent for individual shareholders; the China–US treaty is one example. Under SAT Announcement 2019 No. 35, treaty benefits are self-assessed: the shareholder determines eligibility and claims the reduced rate through the withholding FIE at the time of payment, keeping supporting documents (typically a tax residence certificate) on file for later inspection.[3] In practice, this means the FIE needs the shareholder's information before the payment date. Without it, the FIE will withhold at 20 per cent and leave the shareholder to pursue a refund.

V. Restructuring Is Not a Free Exit

The obvious question is whether to hold the FIE through a company instead. Since 2008, dividends paid by an FIE to a non-resident corporate shareholder have been subject to 10 per cent withholding tax, and some treaties reduce that further. Restructuring now carries real costs. Moving a directly held stake into a holding company is itself a transfer of equity, taxed in China at 20 per cent on the gain; if the declared price is too low without justification, tax authorities can reassess it using a net-asset method that pulls in the FIE's retained earnings, so understating the price to reduce the gain is not a reliable workaround.[4] Holding companies without real substance also risk being denied treaty benefits under China's beneficial-ownership and anti-avoidance rules, and profits still have to reach the individual eventually; the holding company's own jurisdiction may tax them along the way.

> **Simply retaining earnings defers the tax rather than avoiding it.**

A later dividend, or a sale of the equity at a price that reflects those earnings, will be taxed.

VI. What to Do Now

For FIEs

1. Identify every foreign individual who holds equity directly, and establish where each is tax-resident.
2. Update distribution procedures. Every dividend paid from 1 September must be withheld on and reported by the fifteenth of the following month. Under the Tax Collection and Administration Law, a withholding agent that fails to withhold can be fined between 50 per cent and three times the tax it should have withheld.[5]
3. Collect treaty-relief information and residence certificates before payment, not after.

For Foreign Individual Shareholders

1. Confirm your home-country position: whether a credit is available, and at what rate.
2. Take advice before restructuring. The transfer itself is taxable, and structures without real substance are vulnerable to challenge.
3. Plan the timing and form of future profit extraction with the new tax in view.

VII. How We Can Help

IPO Pang Shenjun advises FIEs and foreign investors on Chinese tax and regulatory matters from our Shanghai and Washington offices. We can review withholding procedures, prepare treaty-relief documentation, and assess holding structures, working alongside your home-country tax advisers where credit and residence questions arise.

This alert is for general information only and does not constitute legal or tax advice. Specific advice should be sought on individual circumstances.

VIII. References

1. Ministry of Finance and State Taxation Administration, *Announcement on Personal Income Tax Policy Matters Concerning Foreign Individuals' Dividends and Bonuses*, Announcement 2026 No. 27 (1 September 2026).
2. Ministry of Finance and State Taxation Administration, *Circular on Certain Preferential Enterprise Income Tax Policies*, Caishui [2008] No. 1, Art. 1(2).
3. State Taxation Administration, *Announcement on the Administrative Measures for Non-Resident Taxpayers Claiming Treaty Benefits*, Announcement 2019 No. 35.

4. State Taxation Administration, *Announcement on the Administrative Measures for Individual Income Tax on Income from Equity Transfers (Trial)*, Announcement 2014 No. 67, Art. 12.

5. *Law of the People's Republic of China on the Administration of Tax Collection*, Art. 69.

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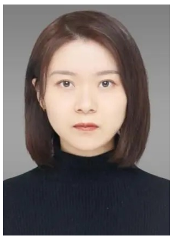
About the Author



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