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People's Republic of China – Long-Term Investors' Dividends Get Tax Relief

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The government of the People's Republic of China (PRC) has issued guidance in a Circular that suspends individual income tax (IIT) on dividends for long-term individual investors who obtained shares of listed companies via public offerings and market transfers and held them for more than one year.[1] The Circular became effective 8 September 2015.

Why This Matters

From a global mobility perspective, the new rules will apply to dividends received by international assignees, who are taxable in the PRC, with shareholdings in companies listed on the national equities exchanges.

Circular No.101 aims to further reduce individuals' tax burdens on long-term investments, and encourage individual investors to be "shareholders" through long-term holdings, instead of "short-sighted speculators" as a means of promoting long-term stability and healthy development of China's capital market.

Circular No.101 will ease some of the tax compliance requirements of listed companies as it suspends the former requirements for such companies to calculate and withhold IIT upon dividend distributions.

Background

The stock market in the PRC has gone through an extremely turbulent period and a series of bail-out measures and supporting policies have been introduced to boost individual investors' confidence in the stock market. The government has been looking at ways in which tax policy may be used to encourage individuals to invest by holding value-oriented stocks for the long-term, curb short-term speculation, and promote long-term stability and robust development of Chinese capital markets.

"*Notice on Issues Relating to Differentiated IIT Policies for Dividends Derived from Listed Companies"* (Cai Shui [2015] No.101, "Circular No.101") was jointly issued by the Ministry of Finance, State Administration of Taxation, and China Securities Regulatory Commission in early September 2015. Circular No.101 stipulates that, from 8 September 2015, dividends derived from the shares held by individuals for more than one year shall temporarily be exempt from IIT.[2]

In addition, upon dividend distribution, listed companies shall temporarily not withhold IIT.

For more details, see "New Policies on PRC Individual Income Tax on Dividends of Listed Companies Was Promulgated to Encourage Long-Term Investments," in *China Tax Alert* (issue 26, September 2015). For the English-language version, click here. For the Chinese-language version, click here.

Footnotes:

1 *Notice on Issues Relating to Differentiated Individual Income Tax (IIT) Policies for Dividends Derived from Listed Companies*, Cai Shui [2015] No.101 (Circular No.101), issued by the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission on 7 September 2015 and effective 8 September 2015.

2 This tax relief comes on top of the preferential IIT treatment as prescribed in the "*Notice on PRC IIT Collection Policy for Dividends Derived from Listed Companies* " (Cai Shui [2012] No. 85, "Circular No. 85") and "*Notice on Issues Concerning the Implementation of Differentiated IIT Policies for Dividends Distributed by Quoted Companies on the National Equities Exchange and Quotations*" (Cai Shui [2014] No. 48, "Circular No. 48").

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The information contained in this newsletter was submitted by the KPMG International member firm in the People's Republic of China.

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