TAX NEWS CHINA

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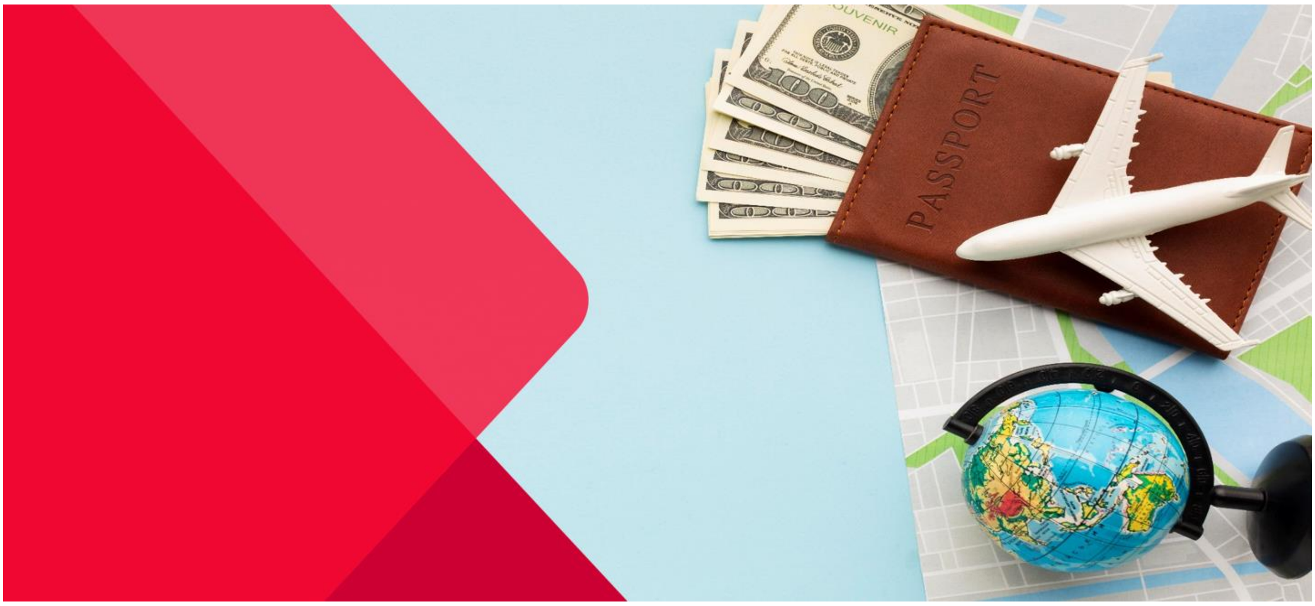

CRS: Offshore assets on the radar

In brief

» It has become increasingly common for Chinese tax authorities to identify undeclared overseas income using data from the Common Reporting Standard (CRS) and to approach taxpayers individually. This development reflects the normalization of cross-border tax supervision and serves as a wake-up call regarding conventional tax planning approaches.

» This newsletter examines the CRS information exchange framework and provides practical compliance recommendations.

Feedback

WTS tax news on Wechat

In detail

China’s participation in the international CRS mechanism can be dated back to 16 December 2015 when it signed *the “Agreement among Multilateral Competent Authorities on Automatic Exchange of Tax-related Information on Financial Accounts*”. This marked the start of annual international data exchanges and due diligence procedures have since become standard practice for financial institutions.

» Offshore account data collection

Under CRS, tax authorities conduct yearly reciprocal exchanges of standardized financial account data for non-tax residents (both individuals and entities) maintaining offshore accounts. The system's effectiveness stems from its fully automated, multilateral exchange model. It thus allows Chinese tax authority the access to overseas financial account data of Chinese residents.

» Red flag areas

By 2024, 111 jurisdictions have implemented the automatic exchange of financial account data, according to the OECD’s Report on the “*Automatic Exchange of Tax-related Information on Financial Accounts (AEOI) for 2024*”. They include some "low-tax havens" such as Hong Kong, Singapore, Switzerland, the British Virgin Islands (BVI) and the Cayman Islands.

Information on over 134 million financial accounts was exchanged automatically in 2023, covering total assets of almost EUR 12 trillion. Furthermore, from 2018 to 2024, the number of other jurisdictions exchanging information with mainland China has increased from 52 to 80.

Core points

CRS implementation engages multiple stakeholders across different sectors. Our analysis will focus primarily on three key perspectives:

- Financial institutions (*data source*)
- Taxpayers (*compliance*)
- Tax authorities (*supervision*)

» Financial institutions (*data source*)

Financial institutions in CRS signatory jurisdictions are required to share their non-residents’ financial account information every year. The types of information include but are not limited to the following data.

No.	Financial assets	Taxable income
1.	Stock	• Dividend income (stock dividends) • Capital gains (bid-ask spread)
2.	Bonds	• Interest income (fixed or floating rate) • Capital gains (secondary market bid-ask spread)
3.	Funds	• Dividend income (fund distribution of investment income) • Capital gains (selling after the fund's net value rises)
4.	Trust property	• Distribution of trust income (interest, dividends, rent, etc.) • Return of principal (when due or conditions are triggered)
5.	Bank savings	• Interest income (fixed rate, usually low and capital protected)
6.	Insurance	• Cash value/dividends (wealth management insurance)
7.	Options/futures and other derivatives	• Leverage gain (spread gain under high volatility) • Arbitrage gain (taking advantage of market pricing differences)

» Taxpayers (*compliance*)

Tax resident status is central to cross-border tax-related information exchange. Under the current tax law, individuals who are domiciled in China or reside in China for 183 days or more in a tax year are considered tax residents.

China tax residents are subject to Individual Income Tax (IIT) on their worldwide income, with specific reporting requirements for foreign-sourced earnings established under the "*Notice on Individual Income Tax Policies on Foreign Income*" issued in 2020 jointly by the Ministry of Finance (MOF) and the State Administration for Taxation (STA).

It requires that, overseas-sourced comprehensive income (i.e. employment, service, copyright, and royalty income) must be consolidated with domestic comprehensive income for filing; however, other income (both active and passive) cannot be combined with their domestic income and has to be file separately.

While certain domestic financial asset income may qualify for tax reductions or exemptions, the extension of these benefits to overseas income currently lacks explicit statutory support.

Nevertheless, the existing framework does provide clear provisions for foreign tax credits, allowing taxpayers to offset taxes paid overseas against their Chinese tax liabilities (within prescribed limits), thereby mitigating double taxation.

» Tax authorities (*supervision*)

As a standard practice, when the State Taxation Administration (STA) receives overseas financial data through the CRS mechanism, it would forward this information to local tax authorities for verification. The local authorities then extract key compliance-relevant details and initiate contact with the affected taxpayers to ensure proper reporting.

To facilitate overseas income reporting, China's tax administration has implemented multiple filing channels. In addition to in-person submissions at local tax offices, taxpayers can now declare foreign-sourced income through both web and mobile APP versions of the individual income tax system.

Case example: Through CRS data exchange, a Shanghai tax authority recently discovered that a resident named Chen had not declared and paid taxes on income earned overseas. The tax authority issued a risk warning and urged him to rectify the situation. The case has ended in a settlement of **CNY 184,800** in taxes and late payment penalties.

WTS China’s observation

The CRS framework provides a powerful tool for Chinese tax authorities to obtain overseas financial data of Chinese tax residents. Looking forward, the OECD is currently developing reporting standards for crypto assets, suggesting that digital asset information may soon be included in automatic exchanges. Additionally, the OECD has initiated preliminary work to expand tax transparency to real estate and other non-financial assets, aiming to strengthen global efforts against tax avoidance.

Chinese taxpayers should consider taking these proactive steps to prepare for potential CRS-related inquiries:

1. Review your overseas assets / income;
2. Calculate your taxable income and tax payable;
3. Communicate proactively with Chinese tax authorities if needed; and
4. Complete all required filings and payments.

Given the technical complexity of cross-border tax matters, professional tax advice is strongly recommended. The following scorecard provides a quick self-assessment of potential risk levels for overseas income.

Scorecard to test yourself

Questions	Yes	No
1. Have you held any an overseas bank account or securities account?	2 points	0 point
2. Is the balance of your overseas financial account over USD **1,000,000**?	2 points	0 point
3. Does your overseas insurance contain cash value or generate dividends?	1 point	0 point
4. Have you held any financial assets via an offshore company	3 points	0 point
5. Is any of your overseas income not yet declared in your China IIT filing?	2 points	0 point
Total		

Interpretation of results:

0-3 points: Low risk (policy attention is recommended)
4-6 points: Medium risk (documentation should be improved)
7-10 points: High risk (tax review is advised)

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