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China expands IIT reach on restricted shares and FIE dividends

In brief

» China has recently made two tax policy adjustments concerning shares held by natural-person shareholders. Under the new rules, the following two situations are now subject to individual income tax (IIT):

a) Capital gains earned by individuals from transferring bonus shares or converted shares issued after the lock-up period of restricted shares; and

b) Dividends received by foreign nationals from foreign-invested enterprises (FIEs) in China.

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In detail

China recently amended the individual income tax (IIT) policies governing restricted shares and dividends involving individual shareholders through the following two announcements:

A. "Announcement on IIT Policy for Transfer of Restricted Shares in Listed Companies" — issued by MOF, STA and CSRC [1], effective from 28 August 2026, referred as **Announcement 26**; and

B. "Announcement on IIT Policy for Dividends and Bonus Received by Foreign Individuals" — issued by MOF and STA, effective from 1 September 2026, referred as **Announcement 27**.

A. Bonus shares and converted shares

» Taxable scope clarified

Announcement 26 clarifies a long-standing unaddressed issue concerning bonus shares and converted shares (i.e. shares converted from capital reserves) derived from restricted shares: whether such derived shares, issued after the lock-up period by listed companies to restricted shareholders, are taxable.

Prior to Announcement 26, taxable derived shares were limited to those granted **during** the lock-up period, not those issued **after** it. It led to the assumption that those issued after a lock-up period, in nature becoming tradable shares, should enjoy the same IIT exemption as other tradable shares.

Announcement 26 now confirms their taxability – the transfer of derived shares issued **after** the lock-up period is also a taxable event, aligning with the tax practice applicable **during** a lock-up period. Such transfer will be taxed consistently at an IIT rate of 20% under the "property transfer income" category.

Announcement 26 is understood to aim at closing the loophole that restricted shareholders are keen to exploit – issuing large bonus / converted shares immediately after the lock-up period, thereby artificially diluting taxable shares into tax-exempt shares and substantially reducing effective tax burden.

» Cost data submission mandatory

Announcement 26 requires that, for transfers taking place after its effective date (28 August 2026), the issuer (the listed company) submits to the clearing house a **cost data report** justifying the proper adjustment to the original cost of the bonus / converted shares; otherwise, IIT will be levied on the **full transfer value**, rather than the gain based on a deemed cost – the latter method was permitted under the old rules (cost deemed at 15% of the transfer value). In addition, the cost data report must be certified by an accounting or tax firm.

By contrast, the bonus / converted shares falling within the following **transition period** may still be eligible for the deemed-cost method where their original cost data is not yet duly declared:

- Those registered before the effective date but transferred after that date; and
- Those registered on the small-and-medium enterprise (SME) trading system before the effective date but transferred after that date in Beijing Stock Exchange (BSE).

That said, this deemed-cost method is only a **provisional** practice allowed at the IIT withholding stage; at the final settlement stage, IIT is still levied based on actual price and cost. It appears that the new policy aims at phasing out the deemed-cost method to remove the opportunity for tax base erosion.

» Final settlement deadline extended

Announcement 26 has extended the deadline for final settlement to **30 June** of the subsequent year following the share transfer, from the previous requirement of within **three months** after IIT withholding. The final settlement is meant to verify whether any tax make-up or refund is needed due to under- or over-withholding, especially in the cases of provisional IIT withholding.

[1] Ministry of Finance (MOF); State Taxation Administration (STA); China Securities Regulatory Commission (CSRC)

B. FIE-dividends to foreign nationals

On a separate note, Announcement 27, effective 1 September 2026, has **lifted** the long-standing IIT exemption on dividends received by foreign nationals from foreign-invested enterprises (FIEs) in China. The new rule has imposed the following requirements:

- Such dividends are now taxable under the “interest, dividend and bonus income” category at an IIT rate of 20% -- unless relieved under applicable bilateral tax treaties.
- FIEs are liable to withhold and file IIT by the 15th of the month following dividend distribution.
- Self-filing by a foreign national is mandatory where the dividend-paying FIE fails to fulfil its withholding obligation. Self-filing must be done by 30 June of the year following the dividend distribution – or such other date as may be specified in a formal notice from the tax bureau.
- This new rule applies to all dividends declared distributable on or after 1 September 2026.

WTS China’s observation

With the promulgation of Announcements 26 and 27, the IIT regime governing shares held by individual shareholders now encompasses the following taxable events:

1. Chinese nationals transferring bonus / converted shares derived from restricted shares after a lock-up period;
2. Foreign nationals transferring the same shares referred to above; and
3. Foreign nationals receiving dividends from FIEs in China shares.

One should note the specific coverage of the two announcements:

- Announcement 26 affects only individuals receiving derived shares arising from restricted shares, where such derived shares are granted after the lock-up period expires. It primarily affects founders or strategic investors of listed companies, rather than the general public, who only have access to tradable shares. In addition, it does not cover shares acquired under employee equity incentive programs (including stock options), which are subject to a separate set of IIT policies.
- Announcement 27 covers only dividends received by foreign nationals from companies formally licensed as “FIEs”. That said, where they receive dividends from a listed company, they may still qualify for the 1-year holding exemption under the general rules, as would any individual investor.

In summary, the table below illustrates where the new changes have taken place (💰 represents an existing IIT levy whereas the shaded box represents a new IIT levy).

Nationality	Income	Legacy shares	Restricted shares	Unlocked derived shares	Tradable shares
Chinese national	Capital gain	💰	💰	💰	Tax Free
	Dividends (ListCos)	Tax Free *	Tax Free *	Tax Free *	Tax Free *

Foreign national	Capital gain	💰	💰	💰	Tax Free
	Dividends (Private FIEs)	💰	💰	💰	💰
	Dividends (ListCos)	Tax Free *	Tax Free *	Tax Free *	Tax Free *

* If holding over 1 year

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