Tax exemption on bonds' interest

China's finance and tax authorities have renewed the tax exemptions on bonds interest income earned by overseas institutional investors. This includes Corporate Income Tax (CIT) and Value-Added Tax (VAT) exemption on interest income from onshore bonds, and VAT exemption on interest from offshore Chinese government bonds.

Similar to prior arrangements, this extension is temporary, effective for a two-year period from 1 January 2026 through 31 December 2027.

Policy renewal and expansion

a) **Old policy:** The previous tax exemption was limited to only onshore bonds, applicable to interest yields earned by overseas institutional investors. First implemented in 2018 and renewed in 2021, the policy was valid until the end of 2025. During this time, offshore Chinese bonds were not covered.

b) **New policy:** The new policy introduces two key developments, outlined in two separate notices issued jointly by the Ministry of Finance (MoF) and the State Taxation Administration (STA) in mid-January 2026.

- **Onshore bonds:** The first notice (*MoF & STA Notice No. 5, 2026*, dated 13 January 2026) concerns onshore bonds. It confirms the renewal of the CIT and VAT exemption for interest from onshore bonds earned by overseas institutional investors, effective from 1 January 2026 through 31 December 2027.

- **Offshore government bonds:** The second notice (*MoF & STA Notice No. 6, 2026*, dated 14 January 2026) concerns offshore government bonds. It extends, for the first time, a VAT exemption to interest earned by overseas institutions from Chinese central or local government bonds issued outside China. The policy addresses VAT only; CIT is understandably not applicable to offshore investments by forieign entities and thus is not covered.

  Notably, this VAT exemption is applied **retroactively** from 8 August 2025 and remains in force until 31 December 2027, the same deadline applied to the first policy mentioned above for onshore bonds. This represents positive news for investments in overseas Chinese government bonds, which are witnessing rapidly growing foreign holdings. The retroactive effective date suggests a pre-emptive policy design, ensuring a broader range of overseas investors can benefit.

Summary

China's bond market continues to grow in both size and openness. According to the China Central Depository & Clearing Co. (CCDC), the total size reached approximately RMB 188.5 trillion by the end of June 2025, confirming its position as the world's second-largest bond market. Backed by China's sovereign credit, fiscal strength, and foreign exchange reserves, Chinese government bonds are experiencing a steady rise in foreign ownership. This ongoing expansion and openness provide a firm foundation for the continuation of these tax incentives.

Overseas institutional investors can primarily access China's bond market through the Qualified Foreign Institutional Investor (QFII/RQFII) schemes, direct investment in the China Interbank Bond Market (CIBM), and Bond Connect.

By renewing tax exemptions for onshore bonds and extending them to offshore government bonds, China reaffirms its commitment to maintaining a stable, open, and investor-friendly bond market.

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