

New tax on Chinese stocks for foreign investors

An extract from Rain or Shine? July 2009

New tax on Chinese stocks for foreign investors

Prior to China's tax reform of 2008, China had a relatively simple and favourable tax regime for foreign investors to deal with B shares and overseas-listed Chinese shares.

Click on each PricewaterhouseCoopers author's name to contact them directly via email

By: [Matthew Wong](#), PricewaterhouseCoopers (China), T: 86 (21) 2323 3052

New tax on Chinese stocks for foreign investors

Prior to China's tax reform of 2008, China had a relatively simple and favourable tax regime for foreign investors to deal with B shares and overseas-listed Chinese shares.

Click on each PricewaterhouseCoopers author's name to contact them directly via email

By: Matthew Wong, PricewaterhouseCoopers (China), T: 86 (21) 2323 3052

Basically, foreign institutional investors were exempt from Chinese withholding tax ("WHT") in respect of dividends payable from overseas-listed shares and B shares, as well as capital gains arising from the sale of these shares.

Meanwhile, while there was no clear WHT exemption policy for dividends and capital gains derived from A shares invested in by Qualifying Foreign Institutional Investors, the Chinese authorities did not collect any WHT.

The corporate income tax law effective from 1 January 2008 significantly changed the taxation regime in relation to the taxation of Chinese listed shares. The broad guiding principle of the regime is that any preferential tax policy is abolished unless specifically re-enacted in the regime. As a result there were concerns that the favourable taxation treatment would not survive.

In August 2008 institutional investors started to feel the negative impact of the new laws when various Chinese companies disclosed that a 10% WHT would be deducted from dividend distributions to corporate shareholders. Thereafter other Chinese listed companies started to withhold income tax at 10% from dividends paid to foreign investors' holdings of A shares.

Subsequently Beijing released two tax rulings clarifying the position. The second of these confirmed that WHT at 10% should be withheld from dividends paid to overseas investors.

These rulings also allow overseas investors who are eligible for a preferential tax treaty rate to apply for a refund of the overpayment. So far no detailed information on the application procedures for treaty benefits has been published by the tax authorities.

In reality the tax authorities have been considering this issue and, in particular, the practical difficulties in enforcing the reporting and settling of withholding tax on capital gains derived from the disposal of overseas-listed Chinese shares by overseas tax payers.

Click on each PricewaterhouseCoopers author's name to contact them directly via email

By: Matthew Wong, PricewaterhouseCoopers (China), T: 86 (21) 2323 3052

The tax rulings were silent on the position in relation to capital gains.

In reality the tax authorities have been considering this issue and, in particular, the practical difficulties in enforcing the reporting and settling of withholding tax on capital gains derived from the disposal of overseas-listed Chinese shares by overseas tax payers. These difficulties arise because the shares are traded outside of mainland China. Hopefully they will shortly resolve the uncertainty and introduce a simple and favourable tax regime to support China's continued capital growth.

pwc.com

© 2009 PricewaterhouseCoopers. All rights reserved. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

PricewaterhouseCoopers provides industry-focused assurance, tax, and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

This report is produced by experts in their particular field at PricewaterhouseCoopers, to review important issues affecting the financial services industry. It has been prepared for general guidance on matters of interest only, and is not intended to provide specific advice on any matter, nor is it intended to be comprehensive. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers firms do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.