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Contents

Tax

Legal

Foreign Exchange

Recent Hot Topics

Tax

Announcement and Interpretation on Tax Administration Issues Concerning Income Tax Treatment of Enterprise Restructuring Business

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This Announcement aims to address the practical difficulty in merger and division transactions where the inability to obtain unanimous consent from all shareholders—due to a large number of shareholders or complex shareholder structures—prevents the application of the special tax treatment. The key points are as follows:

1. Relaxation of Shareholder Unanimity Requirement

Under the previous rules, all parties to a restructuring were required to uniformly adopt either "General Tax Treatment" or "Special Tax Treatment"; as long as a minority of shareholders disagreed, the entire restructuring business could not enjoy the deferred tax benefit under the special tax treatment.

Under the revised rules, at the shareholder level of the merged (divided) enterprise, if the following conditions are met, the equity held by consenting resident shareholders and the corresponding assets and liabilities may separately apply special tax treatment, while the remaining portion still applies general tax treatment:

1) All resident enterprise shareholders holding no less than 5% and the top ten resident enterprise shareholders must all consent; and

2) The aggregate shareholding ratio of consenting resident enterprise shareholders exceeds 50%.

2. Introduction of Simplified Calculation Method

Under the general tax rules, after the assets and liabilities of the merged (divided) enterprise are subject to special tax treatment and general tax treatment respectively, the tax basis shall be recognized for each individual asset and liability separately.

The new rules introduce a simplified calculation method: for assets and liabilities acquired under general tax treatment, the enterprise may elect to recognize the tax basis based on the original tax basis of such assets and liabilities, and treat the difference between fair value and original tax basis as a separate asset, which shall be amortized and deducted evenly on a pre-tax basis over 10 years starting from the year of the restructuring date. Once this election is made, it may not be changed.

3. Expansion of the Scope of Shareholder Entities

According to Announcement No. 48 [2015], shareholders of a merged (divided) enterprise may include natural persons. The new rules further clarify that non-resident enterprises, partnership enterprises, and contractual asset management products are also included in the scope of shareholders for merger and division businesses. The above types of entities shall each be subject to income tax treatment in accordance with their respective current rules, and their tax treatment methods shall not affect the application of special tax treatment by resident enterprise shareholders.

4. Strengthened Lock-up Period Requirements

Resident enterprise shareholders holding no less than 5% and the top ten resident enterprise shareholders may not transfer the equity acquired within 12 consecutive months after the restructuring. If the above core shareholders transfer equity within 12 months, the special tax treatment already applied by all parties must be retroactively adjusted back to general tax treatment.

In addition to the above core shareholders, if other consenting resident shareholders transfer equity within 12 months after the restructuring, causing the aggregate shareholding ratio of consenting shareholders to fall below 50%, the parties will likewise no longer meet the conditions for special tax treatment and tax adjustments must be made.

5. Scope of application and effective time

Applicable transactions: Only applies to enterprise mergers and enterprise divisions. Other restructuring types such as equity acquisitions and asset acquisitions are not covered by this Announcement.

Effective time: Applies to restructuring businesses occurring on or after January 1, 2026 (based on the restructuring date).

Announcement on Matters Concerning Individual Income Tax of Offshore Trusts

Announcement on Tax Administration Matters Concerning Individual Income Tax of Offshore Trusts

Issued by:	Ministry of Finance (MOF), State Taxation Administration (STA)
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On July 24, 2026, the Ministry of Finance and the State Taxation Administration jointly issued the *Announcement on Matters Concerning Individual Income Tax on Offshore Trusts* (the "Announcement No. 21"). The core of this Announcement is to comprehensively bring the income of offshore trusts (including foreign trusts or foreign legal arrangements with trust functions) within the scope of China's Individual Income Tax ("IIT"), covering the entire life cycle of "establishment – existence – termination", and applying a uniform tax rate of 20%.

On the same day, the State Taxation Administration issued the supporting *Announcement on Tax Administration Matters Concerning Individual Income Tax of Offshore Trusts* (the "Announcement No. 15"), which specifies the detailed filing rules and implementation measures. The main contents of the two Announcements are as follows:

1. Full Lifecycle Coverage

The Announcements divide the tax treatment of offshore trusts into three key stages, specifying the tax rules and filing deadlines for each:

Trust Period		Resident Individual	Non-Resident Individual
Establishment (Asset Transfer into Trust)	Taxpayer	The resident individual who transfers assets into the trust.	The non-resident individual who transfers the assets into the trust. However, if the assets are actually controlled by a resident individual, the situation shall be treated as if it were a resident individual case.
	Tax Calculation Method	IIT is levied on "income from property transfer". Taxable income = Market value of the asset at the time of transfer – Original value of the asset – Reasonable expenses. After taxation, the original value of the asset is adjusted to the market value at the time of transfer.	IIT is calculated and paid only on income from transfer of property sourced within China using the same method as left.
	Filing Deadline	March 1 to June 30 of the following year.	Within 15 days of the following month.
Existence (Trust Income)	Taxpayer	The resident individual who transferred assets into the trust.	Resident individuals who receive distributions from the trust. If a non-resident receives a distribution but a resident individual effectively enjoys or controls the income, it is deemed distributed to that resident individual.
	Tax Calculation Method	Comprehensive taxation: All income generated during the existence of the trust and its controlled overseas entities, regardless of whether actually distributed, must be taxed annually: 1. Income from property transfer: Annual gains and losses can be offset, but losses cannot be carried forward to subsequent years.	Limited taxation: Only income actually distributed to resident individuals by the trust is subject to IIT, calculated as "interest, dividends, and bonus income".

Trust Period		Resident Individual	Non-Resident Individual
		2. Interest, dividends, and bonus income: Calculated based on the total of all other types of income (excluding property transfer income) for the year. The two types of income cannot be offset against each other. Trust management fees, trustee remuneration, etc., are not deductible. Taxed income, when actually distributed, shall not be taxed again.	
	Filing Deadline	March 1 to June 30 each year, reporting income for the previous year.	March 1 to June 30 each year, reporting income received from distributions in the previous year.
Termination (Trust Liquidation)	Taxpayer	The resident individual who transferred assets into the trust.	The resident individuals who receive trust property.
	Tax Calculation Method	The liquidation income of the entire trust property (Market value – Original value – Reasonable expenses) taxed as "interest, dividends, and bonus income". Income generated in the year of termination must first be reported according to the rules for the existence stage.	The market value of the trust property at the time of termination taxed as "interest, dividends, and bonus income".
	Filing Deadline	Within 15 days of the month following the completion of liquidation. If liquidation is not completed within 60 days, the 60th day is deemed the liquidation completion date.	Same as left: Resident individuals receiving trust property must file within 15 days of the month following the completion of liquidation.

2. Special Circumstances

The Announcements specify the tax treatment for certain special circumstances occurring during the existence of the offshore trust:

Special Circumstance	Circumstance 1: Change of status from resident individual to non-resident individual Circumstance 2: Death of the resident individual, and the trust is inherited by or left to a non-resident individual, or there is no inheritor
Taxpayer	Circumstance 1: The resident individual whose status changed Circumstance 2: The trustee files on behalf of the trust
Tax Calculation Method	Tax is calculated based on the market value of the trust property on the date of the event (change/death) minus the original value, taxed as "interest, dividends, and bonus income". Income generated in the current year and previous years must be reported according to the rules for the existence stage. After tax payment, the original value of the property is adjusted to the market value on the date of the event, and subsequent rules for non-resident individuals apply.
Filing Deadline	Within 15 days of the month following the event.

3. Anti-Avoidance Arrangements

Announcement No. 21 establishes several anti-avoidance measures, primarily including:

1) Individuals who acquire foreign nationality or long-term/permanent residency overseas but whose primary economic interests originate from within China may be determined as resident individuals with domicile in China.

2) Where a resident individual transfers assets into an offshore trust through a nominee arrangement, such transfer shall be deemed as having been made by the resident individual itself, and the full set of tax rules applicable to resident offshore trusts shall apply.

3) If both resident and non-resident individuals transfer assets into the same offshore trust, it is deemed that all assets are transferred by resident individuals.

4) Economic benefits provided by a non-resident offshore trust to a related resident individual (e.g., providing loans not settled within the year, paying expenses on behalf, etc.) are deemed a distribution of income to that resident individual.

4. Transitional Arrangements

Announcement No. 21 provides a 90-day compliance window (from July 24, 2026, to October 22, 2026) without late payment penalties for existing offshore trusts. Late payment penalties will not be imposed if taxes are declared and paid proactively within these 90 days.

1) Catch-up Payment for Establishment: Unpaid taxes for assets transferred into offshore trusts by resident individuals between January 1, 2023, and December 31, 2025, and by non-resident individuals between January 1, 2023, and the effective date of this announcement. If the amount of individual income tax due but unpaid is relatively large, the tax authorities may extend the period for recovery of taxes in accordance with the law;

2) Catch-up Payment for Existing Income: For income generated before January 1, 2026, by offshore trusts of resident individuals, it should be declared uniformly as "interest, dividends, and bonus income", regardless of the income type.

3) Consequences of Late Payment: Late payment penalties will be imposed for overdue payments; cases involving tax evasion will also be subject to fines.

Legal

Provisions on Simplified Measures for Personal Information Protection by Small Personal Information Processors

Issued by:	Cyberspace Administration of China, Ministry of Public Security of the People's Republic of China
Issue No.:	Order No. 25 of the Cyberspace Administration of China and the Ministry of Public Security of the People's Republic of China
Release Date:	July 24, 2026
Effective Date:	September 1, 2026
Links:	https://www.cac.gov.cn/2026-07/24/c_1786638889704872.htm

The Provisions are China's first departmental rules specifically targeting small personal information processors, aiming to reduce compliance burdens on small and micro-entities and establish a differentiated compliance system for personal information protection. The main contents are as follows:

1. **Scope of Application:** These Provisions apply only to small-scale processors whose cumulative processing of personal information involves fewer than 100,000 individuals. Personal information that has been deleted shall not be counted in the statistics.

2. **Simplification of Obligations for Formulating Personal Information Processing Rules and Providing Notices**

    1) Small processors are not required to draft lengthy privacy policies; they only need to publicly disclose the core items stipulated in these Provisions.

    2) Offline, rules for personal information processing can be made public via notices posted in prominent locations at business premises; online, they can be made public via service agreements, pop-up windows, etc.

    3) Service management units such as those in industrial parks or commercial properties can formulate unified rules for small businesses engaged in similar offline operations within their premises; compliant operators do not need to formulate separate rules. Merchants operating solely on online platforms, who promise to comply with platform rules and do not process information beyond the platform's scope, are exempt from formulating their own rules, fulfilling notification obligations, and may share the results of the platform's compliance audits and impact assessments.

3. **Exemptions Related to Data Export:** Qualified small processors who provide personal information (excluding important information) overseas are exempt from applying for security assessments for data exports, signing standard contracts, or obtaining certifications regarding data export. However, they still need to fulfill the obligations of notification and obtaining separate consent from individuals.

4. **Reduced Burden for Compliance Audits and Impact Assessments:** Small processors may use official simplified templates to conduct compliance audits and personal information protection impact assessments independently. The audit cycle is extended to at least once every five years.

5. **Implementation of Inclusive and Prudent Supervision:** Specific circumstances where minor or occasional violations shall not be penalized, or shall be subject to lighter or mitigated penalties, are clarified.

Provisions of the National Financial Regulatory Administration on the Administration of the List of Seriously Dishonest Entities (Trial)

Issued by:	National Financial Regulatory Administration
Issue No.:	Order No. 3 [2026] of the National Financial Regulatory Administration
Release Date:	July 3, 2026
Effective Date:	July 3, 2026
Links:	https://www.nfra.gov.cn/cn/view/pages/ItemDetail.html?docId=1264238&itemId=928

These Provisions represent the first unified regulatory system for the management of seriously untrustworthy entities in the financial sector. Compared to previous models that primarily relied on one-off administrative penalties for financial misconduct, this achieves a systemic innovation. The main contents are as follows:

1. **Scope of Application and Inclusion Criteria**

   The "List of Seriously Dishonest Entities" primarily targets parties (including citizens, legal persons, or other organizations) whose violations are of an especially egregious nature and particularly serious circumstances. The inclusion criteria are specifically divided into the following three categories:

   1) Those subject to significant administrative penalties (including: institutions having their licenses or business permits revoked; individuals having their lifelong qualifications revoked or cancelled, being banned from working in banking or insurance for life);

   2) Those who, due to committing one of six specified acts (e.g., obtaining administrative licenses by fraudulent or unfair means; fraudulently obtaining loans by deception), have been subjected to heavier administrative penalties, have had market access restricted, have been ordered to transfer equity, or have had administrative permits revoked, seriously disrupting market order;

   3) Those who have the ability to perform but refuse to comply with administrative decisions made by financial regulatory authorities, resulting in an enforcement ruling issued by a court.

2. **Management Measures for Dishonest Conducts**

   Once an entity is included in the list, it will face dual constraints from both regulatory and market perspectives:

   1) At the regulatory level: the inclusion shall be taken as an important consideration in the review of administrative licensing, qualifications, government procurement, and project tendering; the entity shall be designated as a key regulatory target with increased inspection frequency; and facilitative measures such as the notification-based commitment system shall not apply.

2) At the Market Level: Financial institutions may query and refer to the list in their business activities such as investment and financing, credit extension, loans, and insurance, achieving a disciplinary effect of "discredited once, restricted everywhere".

3. Conditions for Removal from the List

The Provisions establish two channels for removal:

1) Automatic Removal upon Expiration: Three years after being placed on the list, the authority that made the decision shall remove the entity within 10 working days from the expiration date.

2) Early Application for Removal: After being on the list for one year, and simultaneously meeting the three conditions of "having fulfilled obligations", "having eliminated negative impacts", and "having not reoccurred as a cause for inclusion", an entity may proactively apply for early removal.

Foreign Exchange

Implementing Rules for Banks Handling Foreign Loan Signing (Modification) Registration for Non-Financial Enterprises in Shanghai

Implementing Rules for Banks Handling Foreign Loan Signing (Modification) Registration for Non-Financial Enterprises in Zhejiang

Issued by:	SAFE Shanghai Branch, SAFE Zhejiang Branch
Issue No.:	Zhewaiguan [2026] No. 13
Release Date:	June 11, 2026; July 17, 2026
Effective Date:	June 11, 2026; August 10, 2026
Links:	https://www.safe.gov.cn/shanghai/2026/0611/2459.html

State Administration for Foreign Exchange (SAFE) Shanghai and Zhejiang branches have successively issued implementing rules for the registration of foreign loan signing (modification) for non-financial enterprises with banks (the "Two Regional Rules"), marking the transition of the pilot policy for high-level opening-up of cross-border trade and investment (the "Facilitation Measures") from the pilot phase to regular implementation. The key points of the Two Regional Rules are as follows:

- Non-financial enterprises registered in Shanghai and Zhejiang that borrow foreign loan under the full-caliber cross-border financing macro-prudential mode (the "Full-caliber Mode") based on the entity’s net asset (excluding real estate enterprises, local government financing platforms, financial leasing companies, financing guarantee companies, commercial factoring companies, local asset management companies, small loan companies, and pawnshops) may directly handle foreign loan signing, modification, and cancellation registration at banks; the pilot supporting documents issued by the two regions in early 2024 are simultaneously repealed.

- If foreign-invested enterprises choose to borrow foreign loan under the "total investment minus registered capital" mode, they shall still apply to SAFE for registration procedures in accordance with the Guidelines for Foreign Exchange Business under Capital Account (2024 Edition) (Hui Fa [2024] No. 12).

- Strengthened KYC obligations of handling banks: Banks shall not proceed with foreign loan registration for restricted entities such as real estate enterprises and local government financing platforms, and shall verify whether the debtor's actual situation and application information are consistent with the system information.

- It is clarified that handling banks shall verify the enterprise's remaining quota of cross-border financing in the Capital Account Information System; if the enterprise has objections to the quota query result, the bank shall coordinate with SAFE for review.
- The application forms have been updated with unified filling standards; Meanwhile, application materials have been simplified, and written applications are no longer mandatory for foreign loan signing registration, with written explanations only required when necessary.

Notice on Further Improving Matters Concerning the Administration of Domestic Foreign Currency Loans

Issued by:	State Administration of Foreign Exchange (SAFE)
Issue No.:	Hui Fa [2026] No. 23
Release Date:	July 31, 2026
Effective Date:	October 1, 2026
Links:	https://www.safe.gov.cn/safe/2026/0731/27745.html

This Notice systematically integrates the domestic foreign currency loan management rules scattered across multiple documents, and simultaneously repeals five old documents including Hui Fa [2002] No. 125, aiming to form a unified and transparent management system. The main contents are as follows:

1. **Optimization of Account Management Rules**

   The new rules continue the management model that primarily uses special accounts for foreign currency loans, but enhance flexibility. For example, one loan may correspond to multiple special accounts, and multiple loans may share one special account.

2. **Expansion of Foreign Exchange Settlement Facilitation Scope**

   Eligible foreign exchange loans backed by goods or services exports may be directly transferred to the enterprise's current account foreign currency settlement account and settled in accordance with current account rules. Two conditions must be simultaneously met: first, self-liquidating, with export foreign exchange receipts as the primary repayment source for the loan; second, the loan corresponds one-to-one with a specific export transaction.

   The new rules expand the facilitation scope for settlement of domestic foreign currency loans from the original goods trade sector to the services trade sector. Meanwhile, it is clarified that goods trade settled in foreign currency between institutions in special supervision zones and institutions outside the zones or between institutions in other special supervision zones is deemed to have a goods export background. Foreign exchange loans without an export background still may not be settled.

3. **Cancellation of Administrative Approval for Foreign Exchange Purchase to Repay Loans**

   The requirement for SAFE approval for purchasing foreign exchange to repay loans is canceled, and banks are instead authorized to handle such transactions directly. The repayment funds may not enter the domestic foreign exchange loan account earlier than 5 working days before the loan maturity date or the actual repayment date.

For domestic foreign currency loans with an export background, borrowers are still required to prioritize repayment with export foreign exchange receipt funds or own foreign exchange funds, and may purchase foreign exchange for repayment only under special circumstances.

4. **Expansion of the Scope of Pledgeable Foreign Exchange Funds**

The original policy only allowed enterprises to pledge funds in their current foreign exchange settlement account when apply for RMB loans. The new rules expand the pledgeable scope to include foreign exchange funds in capital account, increasing the flexibility of enterprise fund utilization.

5. **Strengthened In-process and Post-process Supervision**

Specific business handling requirements and data reporting obligations are clarified, and SAFE will strengthen statistical monitoring, verification, and inspection to prevent related risks.

Recent Hot Topics

- Can newly established small-scale taxpayers apply for issuing large-amount invoices? Will it trigger tax inspections? What business documents should enterprises retain for future reference?
- When enterprises apply for foreign exchange registration for cross-border transactions, is it mandatory to provide a valuation report? What requirements does the foreign exchange administration authority impose on such valuation reports?
- Must enterprises report all basic deposit accounts and other deposit accounts opened at banks to the tax authority? What are the consequences if they fail to do so?

If you are interested in the above topics, please feel free to contact us:

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