KAIZEN CPA LIMITED
启源会计师事务所有限公司
Rooms 2101-05, 21/F., Futura Plaza
111 How Ming Street, Kwun Tong, Hong Kong
香港观塘巧明街111号富利广场21楼2101-05室
T: +852 2341 1444
E: info@kaizencpa.com

China is to Tax Dividend Paid to Foreign Individuals

Starting from September 1, 2026, the 27th Announcement of the Ministry of Finance and the State Taxation Administration of the People's Republic of China officially came into effect. For foreign individuals who receive dividends and bonuses from foreign-invested enterprises, they will no longer enjoy the preferential policy of exemption from individual income tax. Instead, they will be uniformly subject to individual income tax at a rate of 20% under the category of "interest, dividends, and bonuses income".

With the implementation of the new policy, it marks the full unification of the individual income tax system for dividends and bonuses for both domestic and foreign individuals in China, further promoting tax fairness. As a result, the taxes for foreign investors and foreign shareholders will also undergo significant changes. Kaizen provides a brief interpretation of the personal income tax policy on dividends and bonuses for foreign individuals for the reference of existing and potential clients.

1、 Background of Policy Modification

The policy of tax exemption on dividends and bonuses for foreign individuals, which was implemented in 1994, was a phased measure in the early stage of China's reform and opening to attract foreign investment, fill the capital gap and introduce foreign technical talents. It played an important role in introducing foreign capital, technology and talents.

With the increasing maturity of the market economy and the continuous improvement of the tax system, the long-term differentiated tax policies at home and abroad no longer conform to the principle of tax fairness and the requirements of building a unified national market. Domestic individuals are required to pay a 20% tax on dividends and bonuses, while foreign individuals are exempt from tax on the same type of income. This not only leads to an unfair tax burden but also easily causes problems such as enterprises changing their nature to obtain preferential treatment.

This policy adjustment has unified the individual income tax collection and management standards for both domestic and foreign investors, creating a fair and transparent market tax environment. It marks that the tax system has shifted from a "preferential orientation" to a "fair and unified" one, aligning with the international common tax system.

2、 Main Contents of Policy Adjustment

Project	Main Content
Scope of Application	Dividends and bonuses obtained by foreign individuals from foreign-invested enterprises.
Taxation Rules	The tax is levied on "interest, dividends and bonuses income" at a rate of 20%.
Withholding Agents	Foreign-invested enterprises are statutory withholding agents, which shall withhold and pay dividends when they pay dividends, and complete the declaration and tax payment within the 15th day of the next month. If an enterprise fails to fulfill its withholding obligation, foreign individuals should declare and pay the tax on their own before June 30 of the following year when they obtain the income. If the tax authorities pay within a time limit, the time limit shall be enforced.
Effective Time	It shall come into effect on September 1, 2026, and the eighth item of Article 2 of the original "Notice of the Ministry of Finance and the State Administration of Taxation on Several Policy Issues Concerning Individual Income Tax" (Cai Shui Zi [1994] No. 20) shall be simultaneously abolished.

3、 Impact on the enterprise and foreign shareholders

(1) Foreign-invested enterprises shall fulfil the obligation of withholding tax

When foreign-invested enterprises pay dividends and bonuses to foreign shareholders on or after September 1, 2026, they must withhold 20% of individual income tax. Failure to do so as required will result in accountability.

Kaizen suggests that enterprises calculate undistributed profits in advance and plan dividend distribution plans, estimate tax burden costs, and adjust dividend distribution plans and capital arrangements. At the same time, the accounting treatment and declaration procedures should be standardized, and the dividend resolution, payment vouchers, withholding declaration records and other materials should be properly retained for future reference.

(2) The tax burden of foreign individuals fluctuates depending on the tax system of their country or region of residence

For shareholders of globally taxed countries such as the United Kingdom, the United States, Japan, and Australia, according to international tax rules, when such foreign individuals receive dividends and bonuses within China, even if they enjoy tax exemption in China, they still need to pay additional taxes on the global income upon returning to their tax resident countries. Therefore, after being taxed at the bilateral Tax treaty rate (or the statutory rate of 20%) within the territory of China, the taxes already paid in China can usually be applied for Foreign Tax Credit in the home country. For such shareholders, their overall tax burden may not increase substantially. Essentially, it is merely a structural transfer of tax payment locations and fiscal interests between the two governments.

For shareholders in territorial source tax or specific tax-exempt regions, such as Hong Kong and Singapore, in contrast, Hong Kong and Singapore do not impose capital gains tax or dividend tax on individuals (or exempt individual dividends from overseas). Under this tax system, foreign individual shareholders do not need to bear any tax burden for the income derived from the Chinese mainland in their original home country/region. Once the Chinese mainland imposes taxes on them, since there is no corresponding tax payable in their own country to offset, such shareholders will directly face a substantial increase in tax burden and be unable to eliminate double taxation through the overseas tax credit mechanism, thereby leading to a decline in their actual return on investment.

4、 Foreign shareholders can enjoy preferential treatment based on the agreed tax rate

If a foreign individual resident country has signed a double taxation avoidance agreement with China and the agreement stipulates that the dividend and bonus tax rate is lower than 20%, the agreed tax rate is usually given priority. Enterprises need to assist foreign individuals in preparing materials such as proof of beneficial owner and apply for the benefits of the agreement in accordance with the regulations.

5、 Recommendations from Kaizen

In the short term, foreign individual shareholders should closely align with the tax laws and regulations of their home countries and bilateral tax agreements (DTA). Under the premise of clearly identifying their tax identities, they should enjoy the preferential treatments stipulated in the agreements in accordance with the law, properly handle cross-border tax compliance declarations, and prevent potential cross-border double taxation and tax compliance risks.

In the long run, investors need to comprehensively assess their actual tax burden costs. In the face of the substantial differences in the impact brought about by the tax systems of different resident countries, foreign shareholders should review their existing investment paths as early as possible and make forward-looking equity structure arrangements to achieve the best balance between cross-border investment returns and tax costs within a compliance framework.

The tax expert team of Kaizen has been deeply engaged in cross-border services for foreign personnel for many years. They are proficient in cross-border tax planning, compliance declaration of global assets and dividends, and seamlessly connect the entire process procedures such as visa processing, residence in China, and employment permits. Our services cover a wide range of multinational enterprises, foreign employees and shareholders in China. We are committed to tailoring efficient tax structures for our clients to ensure that foreign talents can smoothly enter the workforce, live stably in China, receive dividends from shareholding and cross-border wealth compliance without worries. If you have any cross-border tax or compliance issues, please feel free to contact our advisory team at any time.

If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.kaizencpa.com or contact us through the following and talk to our professionals:

Email: info@kaizencpa.com
Tel: +852 2341 1444
Mobile : +852 5616 4140, +86 152 1943 4614
WhatsApp/ Line/ Wechat: +852 5616 4140
Skype: kaizencpa

