

Announcement on Tax Credit Policy for Overseas Investors Using Distributed Profits for Direct Investments

On June 27 2025, Ministry of Finance, State Taxation Administration and Ministry of Commerce jointly published an announcement about tax incentives relating to overseas investors using distributed profits for direct investments. According to the announcement, when overseas investors, satisfying **certain criteria**, use the profits of a resident enterprise in China for domestic direct investments in China during the period from **January 1, 2025 to December 31, 2028**, **10%** of the investment amount can be used for **tax credit** against the tax payable by such overseas investor.

The following criteria must be met to enjoy the tax incentives:

- 1) The profits distributed to foreign investors refer to **dividends** arising from retained income actually distributed by a resident enterprise in China to the investor.
- 2) Foreign investors may use such distributed profits for **direct domestic investments** in China, including:
 - Capital increase in existing enterprises;
 - Establishment of new resident enterprises;
 - Equity acquisitions in Chinese resident enterprises.
- 3) the direct domestic investments fall in industries classified as nationally encouraged sectors under the "**Encouraged Foreign Investment Industry Catalogue**".
- 4) Foreign investors must continuously hold their domestic reinvestment in China for a minimum period of **5 years (60 months)**.
- 5) If the distributed profits are paid in cash, funds must be transferred **directly** from the profit-distributing enterprise's account to the account of the investee.
In case of the payment is done in forms other than cash (e.g. physical assets, securities), ownership of assets must be transferred **directly** from the profit-distributing enterprise to the investee.
- 6) The **tax credit** eligible to net against tax payable refers to the corporate income tax payable on dividends, interest, royalty income, etc. derived by foreign investors from the profit-distributing enterprise after the date of profit distribution for reinvestment purposes.