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CHINA TAX UPDATE: NEW IIT TREATMENT OF DIVIDENDS RECEIVED BY FOREIGN INDIVIDUALS

China has introduced an important change to the **Individual Income Tax ("IIT") treatment of dividends received by foreign individual investors.**

On **1 September 2026**, the Ministry of Finance and the State Taxation Administration issued **Announcement No. 27 [2026],** changing the long-standing preferential IIT treatment applicable to dividends distributed by Chinese entities to foreign individuals.

Under the previous rules, dividends and profit distributions received by foreign individuals from companies in China benefited from an **IIT exemption**. This preferential treatment had been in place since 1994 and represented an important tax benefit for foreign individuals investing directly in Chinese companies.

Effective from 1 September 2026 the IIT exemption no longer applies.

Dividends received by foreign individuals from **Foreign-Invested Enterprises ("FIEs")** are now subject to Chinese IIT under the category of **"interest, dividends and bonuses"**, with **a 20%** statutory tax rate.

As a result, Chinese entities distributing dividends to foreign individual shareholders will need to take the new IIT treatment into account when making distributions.

The change marks the end of a preferential tax treatment that had been available to foreign individual investors in China for more than **three decades**.

Foreign individual shareholders of Chinese companies should therefore review the tax impact of future dividend distributions, including the potential application of any relevant **Double Taxation Agreement ("DTA")** between China and their country of tax residence.

The new rules should also be considered when **evaluating existing investment structures** and **future direct investments in China**.

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