

## November 2012

Circular Number	Issuance Date	Effective Date	Topic	What is new?
Caishui [2012] No. 85	2012-11-16	2013-01-01	Differential IIT policies on dividend income from listed companies	<p>Under the <i>PRC Individual Income Tax ("IIT") Law</i>, dividend income received by individuals is subject to IIT at 20%. However, starting from 13 June 2005, for dividends received from companies listed in the Chinese (Shanghai and Shenzhen) stock exchange, only 50% of the dividend amount was regarded as taxable income, i.e. the effective tax rate was 10% of the dividends.</p> <p>The Tax Circular <i>Caishui [2012] No. 85</i> now differentiates IIT treatments on dividends from listed companies according to the "holding period" of the relevant shares:</p> <ol style="list-style-type: none"> <li>1. If the holding period is no more than 1 month: 100% of the dividends are subject to 20% IIT, i.e. no preferential treatment is available.</li> <li>2. If the holding period is more than 1 month but no more than 1 year: 50% of the dividends are subject to 20% IIT, i.e. the effective tax rate is 10% of the dividends.</li> <li>3. If the holding period is more than 1 year: 25% of the dividends is subject to 20% IIT, i.e. the effective tax rate is 5% of the dividends.</li> </ol> <p>Holding period refers to the period from the day when shares were acquired to the day when they</p>

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				<p>are transferred.</p> <p>Holding period shall be calculated based on the “first in, first out” rule. I.e. shares are transferred in the same chronological order in which they are acquired.</p> <p>The new IIT policy aims to encourage long-term investment in the China Stock Market. Domestic individuals holding “A shares” for more than 1 year will benefit from reduced IIT burden. Foreign individual investors are currently not allowed to invest in the “A share” market. However, the so-called “B share” market is open to foreign individuals. Therefore, foreign individual investors with long term B share investments can also benefit from the policy.</p> <p>The Tax Circular takes effect from 1 January 2013.</p>
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