News Flash
China Tax and Business Advisory

The State Taxation Administration further refines the special tax treatments for corporate mergers and demergers

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In brief

The State Taxation Administration (“hereinafter referred to as “STA”) recently issued “Public Notice Regarding the Administrative Issues concerning the Corporate Income Tax Treatment of Enterprise Restructuring” (Public Notice [2026] No. 13, hereinafter referred to as “PN 13”) and its official interpretation[1]. Following Caishui [2009] No. 59 (hereinafter referred to as “Circular 59”) and other relevant tax circulars, PN 13 provides more detailed and clear regulations regarding the special tax treatment (hereinafter referred to as “STT”) applicable to tax resident enterprise merger/demerger transactions. PN 13 and its official interpretation mainly clarify the following matters:

- Resident enterprise shareholders collectively holding more than 50% equity in a corporate merger or demerger must reach a consensus on STT; in particular, resident enterprise shareholders with no less than 5% shareholding percentage and the top ten resident enterprise shareholders must all agree on the application of STT.
- At the shareholder level, STT applies only to those resident enterprise shareholders that have reached consensus; at the level of merged (or demerged) subsidiaries, STT only applies to portion of

asset/liability corresponding to the equity held by such resident enterprise shareholders who have reached consensus, while the remaining portion is subject to general tax treatment (hereinafter referred to as “GTT”).

- Shareholders enjoying STT must not transfer equity acquired within 12 months after restructuring.
- Individual shareholders, non-TRE shareholders, partnership shareholders, and contractual asset management product shareholders are not eligible for STT.

PN 13 applies to corporate restructuring transactions taking place after January 1, 2026. This issue of China Tax/Business News Flash summarizes the key messages of PN 13 and its official interpretation together with the cases included in the official interpretation, as well as sharing our observations.

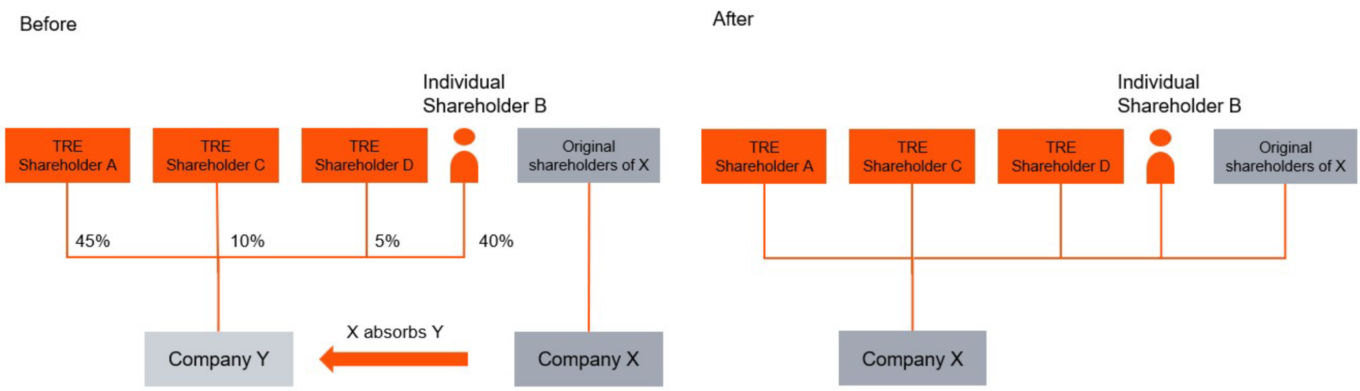
In detail

I. Resident enterprise shareholders collectively holding more than 50% equity in a corporate merger or demerger must reach a consensus on STT

Article 1 of PN 13 stipulates that one of the conditions for a corporate merger (demerger) to apply STT is that the aggregate shareholding percentage of resident enterprise shareholders of the merged (or demerged) enterprise reaching consensus on STT must exceeds 50%.

Case 1[2]: Company X absorbs and merges Company Y. Company Y has four shareholders: Shareholder A is a resident enterprise holding 45%; Shareholder B is a natural person holding 40%; Shareholder C is a resident enterprise holding 10%; and Shareholder D is a resident enterprise holding 5%.

Shareholders A, C, and D reach consensus with the merged company (Company Y) and the absorbing company (Company X) on STT. Assuming other conditions are met, is the restructuring eligible for STT?



(unofficial English translation)

Article 1.1 of PN 13

For corporate mergers and demergers, if the resident enterprise shareholders of the merged (demerged) enterprise holding more than 50% equity in aggregate reach consensus with the merged (demerged) company and the absorbing (spin-off) company on STT, the equity held by the shareholders who have reached consensus, as well as the corresponding portion of assets and liabilities transferred by the merged (or demerged) enterprise, and the assets and liabilities acquired by the absorbing (spin-off) enterprise are eligible for STT. The equity held by the other shareholders, and the corresponding assets and liabilities transferred by the merged (demerged) enterprise, as well as assets and liabilities acquired by the absorbing (spin-off) enterprise, should all subject to GTT.

Article 2.1 of PN 13

Where STT applied in accordance with Article 1, resident enterprise shareholders holding no less than 5% equity in the merged (demerged) enterprise on the restructuring date, and the top ten resident enterprise shareholders, must all reach consensus on STT…

Analysis: Since shareholders A, C, and D have reached an agreement with the merged enterprise and the absorbing enterprise on STT, the aggregate shareholding percentage of agreed resident enterprise shareholders is 60%, which exceeds the 50% threshold. If other STT conditions are met, shareholders A, C, and D can enjoy STT. Individual shareholder B should follow the relevant IIT regulations.

PwC observations

Prior to the issuance of PN 13, according to STA Public Notice [2010] No. 4, all resident enterprises involved in the same restructuring transaction should reach unanimous consensus on tax treatment, i.e., all use GTT or all use STT. The appendix of STA Public Notice [2015] No. 48 "List of Corporate Restructuring STT Filing Documents" further requires submitting "supporting documents with official seals evidencing the unanimous consensus on STT by all parties of the restructuring."

PN 13 refines the "unanimous consensus" rule for applying STT to merger (demerger), where STT may apply if the aggregate shareholding percentage of resident enterprises shareholders of the merged (demerged) enterprise reaching consensus on STT exceeds 50%. When calculating the 50% threshold, resident enterprise shareholders with no less than 5% shareholding and top ten resident enterprise shareholders must reach consensus. Other minority resident enterprise shareholders may choose whether to agree on STT. If such minority resident enterprise shareholders do not agree on STT, or they are unaware of the merger (demerger) transactions, and lack supporting documents of reaching consensus, such minority shareholders should be subject to GTT.

II. At the shareholder level, STT applies only to the resident enterprise shareholders who reach consensus; At the subsidiary level, STT only applies to the portion of asset/liability corresponding to the equity held by resident enterprise

shareholders who reach consensus, while the remaining portion is subject to GTT.

Case 1 (continued): As for the restructuring, the original tax base for Company Y's assets and liabilities is RMB10 million, the fair value is RMB18 million. What is the tax treatment?

(unofficial English translation)

Article 1.1 of PN 13

… the equity held by the shareholders who have reached consensus, as well as the corresponding portion of assets and liabilities transferred by the merged (or demerged) enterprise, and the assets and liabilities acquired by the absorbing (spin-off) enterprise are eligible for STT. The equity held by the other shareholders, and the corresponding assets and liabilities transferred by the merged (demerged) enterprise, as well as assets and liabilities acquired by the absorbing (spin-off) enterprise, should all subject to GTT.

Article 1.2 PN 13

Where the assets and liabilities acquired by the absorbing (spin-off) enterprise pursuant to the preceding paragraph are subject to GTT, the enterprise may choose to recognize the tax base of such assets and liabilities based on their original tax base, with the difference between the fair value and the original tax base treated as a separate asset and amortized on a straight-line basis over a period of ten years, commencing from the tax year of the restructuring date. Once this method is chosen, it cannot be changed.

Analysis:

- Shareholder level: Resident enterprise shareholders A, C, and D can enjoy STT and no need to recognize taxable income at this point. Individual shareholder B should follow the prevailing IIT regulations.
- Subsidiary level (60% STT and 40% GTT):
  - 60% of the assets and liabilities transferred by the merged Company Y can enjoy STT, with no taxable income recognized for the current period, and the remaining 40% should be recognized as Company Y's equity transfer income for tax purposes, which is RMB 3.2 million 〔（1800-1000）×40%〕.
  - The tax base for the 60% of the assets and liabilities acquired by the absorbing Company X is RMB 6 million (10 million × 60%), and the tax base for the remaining 40% acquired is RMB 7.2 million (18 million ×40%), totalling RMB 13.2 million. Specifically for individual assets, Company X can choose:
    - ✓ Asset-by-asset method: Each asset and liability is recognized as "60% of the original tax base + 40% of the fair value" respectively; Or
    - ✓ Simplified method: Each asset and liability is recognized based on the original tax base (i.e., in total RMB10 million). For the difference between the fair value and

the original tax base of the GTT portion, which is RMB 3.2 million (7.2 million - 4 million), is treated as one asset and amortized evenly over 10 years for CIT purposes, starting from the year of the restructuring date.

PwC observations

Prior to the issuance of PN 13, for individual shareholders involved in merger and demerger transactions, they are not eligible for STT. Therefore, the tax treatment at shareholders level was the same as PN 13. However there has not been any regulations clarifying the CIT treatment for the increase in value of the asset/liability of the merged (demerged) subsidiary in such cases. As a result, in previous practice, Company Y usually did not recognize any taxable income, and the tax base for assets and liabilities acquired by Company X from Company Y was generally determined entirely based on the original tax base (i.e., RMB 10million). Enterprises should note that under PN 13, where some shareholders apply GTT, the merged (demerged) enterprise may incur CIT.

In addition to the requirement that Company Y should recognize the GTT part of the equity transfer income, the tax base of the assets/liabilities acquired by Company X should be stepped up accordingly. If the asset-by-asset method is chosen, the tax base is deducted through normal depreciation depending on the asset type or when Company X subsequently dispose of the assets. If the simplified method is chosen, it is deducted as one asset amortizing over the next 10 years. Companies should take into consideration the types of assets involved in the mergers (demergers) and the compliance cost, when choosing a suitable method.

III. Shareholders applying STT must not transfer acquired equity within 12 months after restructuring

Article 2 of PN 13 provides two situations under which shareholders applying STT must not transfer the acquired equity within 12 months after restructuring.

1. Scenario 1: The top ten resident enterprise shareholders and resident enterprise shareholders with no less than 5% shareholding

Case 2[3]: Company X is a listed company and intends to absorb and merge Company Y. All resident enterprise shareholders of Company Y have reached consensus on STT, with an aggregate shareholding of 86%. Individual shareholders and partnership shareholders holding in total 14% did not reach an agreement. At the restructuring date, the tax base of Company Y's assets and liabilities is RMB10 million, and the fair value is RMB 20 million. Nine months after the restructuring is completed, one resident enterprise shareholder (holding 6% of shares) transfers Company X shares that it acquired. What is the tax treatment?

(unofficial English translation)

Article 2.1 of PN 13

Where STT applied in accordance with Article 1, resident enterprise shareholders holding no less than 5% equity in the merged (demerged) enterprise on the restructuring date, and the top ten resident enterprise shareholders, must all reach consensus on STT, and they must not transfer the equity acquired within 12 consecutive months following the restructuring. If any of the aforementioned shareholders transfer the equity acquired within 12 months following the restructuring, the conditions of STT are no longer met. Where STT has already been applied, the parties involved shall make tax adjustments in accordance with relevant regulations.

Analysis:

- STT applies to the portion agreed upon by the resident enterprise shareholders: the merged Company Y should recognize income of RMB1.4 million ((2000-1000)×14%), while the absorbing Company X should take RMB 11.4 million （1000×86%＋2000×14%）as the tax base of acquired assets/liabilities. The resident enterprise shareholders can enjoy STT, with no taxable income recognized for the current period. Individual shareholders and partnership shareholders shall recognize taxable income according to the relevant tax regulations.
- Nine months after the restructuring, as one resident enterprise shareholder holding more than 5% transfers Company X shares that it acquired, all parties should do tax adjustment based on GTT: The merged Company Y should additionally recognize income of RMB 8.6 million (20 million - 10 million - 140 million), and the absorbing Company X shall use RMB 20 million as the tax base for acquired assets/liabilities. All resident enterprise shareholders should recognize taxable income accordingly.

PwC observations

According to Circular 59, one of the conditions for applying STT is that “the original major shareholders who received equity payments in a corporate restructuring must not transfer the acquired equity within 12 consecutive months after the restructuring.” STA Public Notice [2010] No. 4 further provides that “the original major shareholder refers to the shareholder who originally holds more than 20% equity in the transferred or acquired enterprise.” PN 13 tightens this provision that all resident enterprise shareholders holding no less than 5% and all top ten resident enterprise shareholders are prohibited from transferring their acquired equity within 12 consecutive months after restructuring. Otherwise, all parties must apply GTT. For this case:

- Merged Company Y: An additional taxable income of RMB 8.6 million should be recognized. In practice, it should be noted that Company Y may have already been deregistered after the merger, and in such case, the absorbing enterprise (Company X in this case) may need to recognize the income.
- Absorbing Company X: The tax base for acquired assets/liabilities should be RMB 20 million.

	• Shareholder level: Taxable income should be recognized. According to Circular 59, GTT for corporate mergers requires resident enterprise shareholders to handle income tax matters as if a liquidation had occurred.

2. Scenario 2: Other resident shareholders who are not among the top ten resident enterprise shareholders and hold less than 5% shares

Case 3[4]: In July 2026, Company X absorbed and merged Company Y. The aggregate shareholding percentage of resident enterprise shareholders reaching consensus on STT is 51%. Shareholder A is a resident enterprise and not among the top ten resident enterprise shareholders. It held 4% of Company Y's shares and agreed on STT. After the merger, shareholder A acquired 2% of Company X's shares. In December 2026, shareholder A transferred 1% of Company X's shares. Did such share transfer violate the conditions of STT?

(unofficial English translation)

Article 2.2 of PN 13

Apart from the shareholders mentioned in Article 2.1 above, if any other shareholders who have also reached consensus on STT transfer their equity interests within 12 months following the restructuring, resulting in the aggregate shareholding percentage of the agreed parties no longer exceeds 50%, STT shall not apply, and the parties concerned shall make adjustments in accordance with relevant applicable regulations.

Analysis: Shareholder A transferred 1% of Company X's shares, which reflected that 2% shares of Company Y is not agreed upon. The aggregate shareholding percentage of resident enterprise shareholders reaching consensus on STT dropped to 49%. Even if other conditions met, the merger is not eligible for STT, and all parties should do tax adjustment based on GTT.

PwC observations	Based on the description of this case in the official interpretation, it is assumed that the aggregate shareholding percentage of the top ten resident enterprise shareholders and resident enterprise shareholders holding no less than 5% does not exceed 50%. Therefore, although shareholder A is not among the top ten shareholders and holds less than 5% shares, its shareholding is also included in the calculation, so that the aggregate shareholding percentage of agreed resident enterprise shareholders reaches 51%. As a result, the transfer of the equity acquired by shareholder A within the following 12 months violates the conditions of STT. None of the transaction parties can apply STT and should do tax adjustment based on relevant tax regulations. There is another scenario not mentioned in the official interpretation: assuming that the aggregate shareholding percentage of the top ten resident enterprise shareholders and resident enterprise shareholders with no less than 5% reaching consensus on STT already exceeds 50%, and the 4% shareholding of shareholder A is not included in the calculation of the 50% threshold, if shareholder A chooses to agree on STT on the

restructuring date, but transfers 1% of Company X's equity acquired (corresponding to 2% equity in Company Y) within 12 months after restructuring, PN13 and its official interpretation do not provide the tax treatment (it is recommended to communicate with the in-charge tax authority). Specifically:

- Shareholder level: Since the aggregate shareholding percentage agreed on STT still exceeds the 50% threshold, theoretically the share transfer by shareholder A should not affect other resident enterprise shareholders who had reached consensus on STT from continuing enjoying STT. However, PN13 and its official interpretation does not clarify whether shareholder A itself is deemed to have violated the 12-month rule and should recognize taxable income based on GTT on the restructuring date. If so, it is also not clear whether income should be recognized in full or proportionally to the shares disposed (shareholder A only transferred half of the equity);
- Merged enterprise Y level: it is not clear whether Company Y needs to recognize taxable income corresponding to the 4% (or 2%) assets/liabilities value appreciation (and whether Company X can step up the tax base accordingly).

IV. Non-Chinese resident enterprise shareholders are not eligible to enjoy STT

(unofficial English translation)

Article 3 of PN 13

Shareholders of the merged enterprise and the demerged enterprise can be natural persons, partnerships, contractual asset management products, or non-resident enterprises. These shareholders should handle income tax matters according to the relevant prevailing regulations.

PwC observations

STA Public Notice [2015] No. 48 clearly states that individual shareholders should handle income tax according to relevant IIT regulations, i.e., STT does not apply to natural persons. PN 13 further clarifies that individual shareholders, non-resident enterprise shareholders, partnership shareholders, and contractual asset management products shareholders must all handle income tax according to relevant prevailing tax regulations, indicating that STT also does not apply to such shareholders.

The takeaway

In recent years, restructuring activities carried out by listed companies such as mergers and acquisitions have become increasingly common. Given the large number of shareholders of listed companies, it is not always possible to collect all resident enterprise shareholders' consensus on STT in accordance with the previous regulations. The most significant change introduced by PN 13 is that the parties involved in a merger (or demerger) are no longer required to 100% agree on the application of STT; instead, as long as the aggregate shareholding percentage of resident enterprise shareholders reaching consensus on STT exceeds the 50% threshold, and all other conditions met, those shareholders who have reached consensus and their portion of subsidiaries may apply STT in proportion to their respective equity holdings.

Since PN 13 provides a regime that STT and GTT can coexist in the same merger (demerger) transaction. Enterprises should pay attention to the following issues:

- Shareholder level: PN13 sets strict requirements for core major resident enterprise shareholders (shareholders holding more than 5% shares, and top ten shareholders). They must all agree on STT and are prohibited from disposing of the acquired equity within 12 months after restructuring; otherwise, all parties involved must perform tax adjustment. Share transfer by other minority resident enterprises shareholders who also enjoying STT must also be monitored to ensure that small amount of share transfers within the 12-month post-restructuring period do not affect the 50% threshold, and to assess any potential tax implications at the subsidiary level.
- Subsidiary level: If some shareholders apply STT and some apply GTT, the absorbing company (or spin-off company) needs to factor in both fair value and the original tax base when calculating the tax base of acquired assets and liabilities after restructuring. The finance department should establish ledgers for separate tracking. It is also worth paying attention to the potential tax impact at the subsidiary level if shareholders who originally applied STT transfer the acquired equity within 12 months after restructuring.

PwC will continue to follow up on the developments in fiscal and tax policies related to corporate restructuring and will share insights with you in a timely manner.

Endnote

1. The full text of “Public Notice Regarding the Administrative Issues concerning the Corporate Income Tax Treatment of Enterprise Restructuring” (Public Notice [2026] No. 13): http://beijing.chinatax.gov.cn/bjswj/sszc/zxwj/202607/c0aca7983ba2433bb92c6bfa43f313a1.shtml

   Official interpretation: http://beijing.chinatax.gov.cn/bjswj/sszc/zcjd/202607/3cbd6c5cfa2d445bbfac6d7402170c9d.shtml

2. Case 1 in this article combines Cases 1, 2, and 3 in the official interpretation of PN 13.

3. Case 2 in this article combines Cases 4 and 5 in the official interpretation of PN 13.

4. Case 3 in this article refers to Case 6 in the official interpretation of PN 13.

Let’s talk

For a deeper discussion of how this impacts your business, please contact **PwC’s China Tax and Business Service Team:**

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News Flash
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