News Flash
China Tax and Business Advisory

Interpretation of the individual income tax policies on offshore trusts: Key points and implications of the new rules

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In brief

On July 24, 2026, the Ministry of Finance (MOF) and the State Taxation Administration (STA) jointly issued the "Public Notice on Matters related to Individual Income Tax (IIT) on Offshore Trusts" (Public Notice of MOF and STA [2026] No. 21, hereinafter referred to as "PN No. 21")[1]. On the same day, the STA issued the "Public Notice on Matters related to the Collection and Administration of Individual Income Tax on Offshore Trusts" (Public Notice of STA [2026] No. 15, hereinafter referred to as "PN No. 15")[2] with administrative measures to PN No. 21. The aforementioned Public Notices clarify the IIT rules applicable throughout the entire lifecycle of offshore trusts, introduce corresponding anti-avoidance measures, and stipulate relevant administrative requirements, with the aim of strengthening the IIT administration of offshore trusts.

In this issue of China Tax/Business Insights, PwC provides a concise overview of the core rules and key considerations under the IIT policies on offshore trusts.

In detail

PN No. 21 clarifies that "income derived by an individual upon transferring property into an offshore trust or through an offshore trust" constitutes taxable income under the IIT Law. The "property" includes movable property, immovable property, and all other types of property. Building upon this, the aforementioned Public Notices refine the IIT rules and enhance the administrative provisions related to offshore trusts.

I. IIT rules throughout the lifecycle of offshore trusts: a party-stage framework

Based on the fundamental principle of China's IIT Law, under which resident individuals are taxed on their worldwide income and non-resident individuals are taxed on China sourced income only, PN No. 21 establishes the tax rules for offshore trusts by focusing on the individual who transfers property into the trust. The tax rules are structured by party and by stage (i.e. establishment, existence, and termination of the trust).

The following provides a brief summary of the tax rules applicable to resident and non-resident individuals in relation to offshore trusts.

1. Fundamental IIT rules for offshore trusts

1.1 IIT treatment for a resident individual's offshore trust

Stage	Taxpayer	Nature of Income	Income Determination	Period of Tax Filing	Other Key Points
1. Establishment (transfer of property)	Resident individual (Note 1, same below)	Income from property transfer	Market value at transfer less original cost and reasonable expenses	March 1 to June 30 of the year following the transfer	Income from property transfer sourced both within and outside China; Cost basis of the property adjusted to market value at transfer after IIT paid
2. Existence (generation of trust-level earnings) (Note 2)	Resident individual	Income from property transfer	Computed annually, with gains and losses netted within the same year; losses may not be carried forward	March 1 to June 30 of the year following generation of earnings at the trust level	Regardless of actual distributions; The two categories of income segregated, i.e. computed separately and cannot offset each other;

		Income from interest, dividends and bonuses	Computed annually, aggregating all other categories of income		**Trust expenses not deductible;** Previously taxed income not subject to tax upon actual distributions
3. Termination (liquidation gains)	Resident individual	Income from interest, dividends and bonuses	Market value of trust assets at termination less original cost and reasonable expenses	Within 15 days of the month following completion of liquidation (equal instalment payments over 5 years may be granted upon timely record filing)	For mid-year terminations, income generated prior to termination in that year reported and taxed pursuant to Stage 2
Special scenario – a resident individual becomes a non-resident individual	Resident individual	Income from interest, dividends and bonuses	Market value of trust assets on the date of change of status, less original cost	Within 15 days of the month following the change of status	For mid-year changes, income generated prior to the change in that year reported and taxed pursuant to Stage 2; Cost basis of the property adjusted to market value on the date of change after IIT paid
Special scenario – death of a resident individual	Reporting by the trustee on behalf of the deceased (Note 3)	Income from interest, dividends and bonuses	Market value of trust assets on the date of death, less original cost	Within 15 days of the month following the death (equal instalment payments over 5 years may be granted upon timely record filing)	**Applies where the trust is succeeded by a non-resident individual or has no successor;** For mid-year successions, income generated prior to succession in that year reported and taxed pursuant to Stage 2; Cost basis of the property adjusted to market value on the date of death after IIT paid
	Successor resident individual	**Applies where the trust is succeeded by a resident individual;** trust treated as a resident individual's offshore trust, subject to relevant tax rules			

Note 1: Refers to the resident individual who transfers property into the offshore trust.

Note 2: Please refer to Part III below for the tax treatment of earnings generated at the trust level by a resident individual's offshore trust prior to January 1, 2026.

Note 3: Refers to the trustee of the trust or its designated domestic institution.

Resident individual as the core taxpayer: For an offshore trust established through property transfer by a resident individual, that individual is the primary taxpayer, with tax obligations arising both upon the transfer of property to establish the trust and upon the generation of earnings at the trust level during the trust's existence.

Offshore trusts jointly established by two or more resident individuals: In such cases, the trust property and the relevant earnings attributable to each individual shall be apportioned based on the proportion of the market value of the property transferred by such individual to the total market value of all properties in the trust, and each individual shall separately file and pay IIT accordingly.

Foreign tax credit for resident individuals: Individual income tax paid by a resident individual in a foreign jurisdiction on income derived from the offshore trust in accordance with local laws may be credited against the individual's China IIT payable according to the IIT Law.

1.2 IIT treatment for a non-resident individual's offshore trust

Stage	Taxpayer	Nature of Income	Income Determination	Period of Tax Filing	Other Key Points
Establishment	Non-resident individual (Note 1)	Income from property transfer	Market value at transfer less original cost and reasonable expenses	Within 15 days of the month following the transfer	China sourced property transfer income
Existence (Note 2)	Resident individual receiving distributions	Income from interest, dividends and bonuses	Computed annually	March 1 to June 30 of the year following the receipt of the distribution	The resident individual subject to IIT upon actual receipt of the distribution
Termination	Resident individual receiving trust assets	Income from interest, dividends and bonuses	Market value of trust assets at termination	Within 15 days of the month following completion of liquidation	
Special scenario – succession by resident individual	Successor resident individual	Tax rules for resident individuals' offshore trusts apply			

Note 1: Refers to a non-resident individual who transfers property into the offshore trust.
Note 2: Please refer to Part III below for the tax treatment of distributions made to resident individuals from a non-resident individual's offshore trust prior to January 1, 2026.

In general, during the existence and upon termination of a non-resident individual's offshore trust, the resident individual receiving trust distributions or trust assets is the taxpayer for IIT purpose, with tax obligations arising at the time the resident individual actually receives the distribution or trust assets.

2. Key points of IIT rules for offshore trusts

- **Scope of application**

The IIT policies for offshore trusts apply to trusts established under foreign laws or other legal arrangements with trust functions, but exclude financial products issued by banks, insurance companies, securities firms, fund management companies, and similar entities that are subject to local financial regulatory oversight, independently conduct business for unspecified clients, and bear their own business risks.

- **Foreign entities within offshore trust structures**

Pursuant to PN No. 21, eligible foreign entities held, controlled, or managed by an offshore trust are also subject to the offshore trust IIT rules. Articles 13 and Article 14 of PN No. 21 specify the criteria for eligible "foreign entities" and circumstances constituting "control over foreign entities."

PN No. 21 defines "foreign entities" to encompass various organizational forms, including corporations, partnerships and foundations. It sets forth the criteria for eligible foreign entities based on factors such as income proportion, substantive operations, use of funds, and business decision-making. A foreign entity meeting any of these conditions falls within the application scope of the IIT rules for offshore trusts.

- **Status of domiciled resident individual**

Pursuant to the Detailed Implementation Regulations of the IIT Law[3], a China-domiciled resident individual refers to "an individual who habitually resides within China by reason of household registration, family ties, or economic interests." Article 11 of PN No. 21 specifies that "an individual who has acquired foreign nationality or long-term or permanent residency, but whose principal economic interests originate from within China, may be determined as a resident individual with China domicile". The provision underscores the significance of the "economic interests" factor in determining such individual's tax residency status.

II. Anti-avoidance measures for IIT on offshore trusts

PN No. 21 establishes multiple anti-avoidance measures regarding the IIT on offshore trusts, mainly including the following:

Nominee arrangements: At the stage of establishment, where an individual transfers property into an offshore trust through another individual or organization, and such property is in substance funded, borne, or controlled by that individual, such transfer shall be deemed made by that individual; and where a non-resident individual transfers property into an offshore trust that is actually controlled by a resident individual, such transfer shall be deemed made by that resident individual. Where an offshore trust makes distribution to a non-resident individual, but such distribution is actually received, used, controlled, or disposed of by a resident individual, the distribution shall be deemed made by the offshore trust to that resident individual.

Undervalued property transfer by offshore trusts: Where an offshore trust transfers trust property via distribution, gift, assignment, sale at an undervalue, or other similar methods, the taxable income from property transfer shall be determined based on the market value of the property. Losses arising from property transfers to a related party of the offshore trust shall not offset the taxable income from the property transfer.

Offshore trusts jointly established by resident and non-resident individuals: Where an offshore trust is jointly established by resident and non-resident individuals through property transfer, it shall be deemed that the property has been transferred into the offshore trust solely by resident individuals.

Deemed distribution from non-resident individual's offshore trust: It shall be deemed that a non-resident individual's offshore trust has made distributions to resident individuals where such offshore trust provides loans, mortgages or guarantees to resident individuals (or their related parties), bears expenses on their behalf, allows gratuitous use of trust assets, or provides economic benefits to those individuals through third parties.

III. Retroactive IIT treatment for existing offshore trusts

PN No. 21 specifies retroactive IIT treatment for existing offshore trusts and provides a transitional period. The late payment surcharge will be waived for taxpayers who declare and settle the unpaid IIT within 90 days from the effective date of the regulations (i.e. July 24). If taxpayers fail to comply within this period, tax authorities will handle the matter in accordance with relevant laws and regulations, including imposing late payment surcharges on tax in arrears; where tax evasion is established, a fine shall additionally be imposed.

Stage	Retroactive Period	Other Key Points
Establishment (transfer of property)	Resident individuals: January 1, 2023 to December 31, 2025 Non-resident individuals: January 1, 2023 to the effective date of the regulations	Retroactive period may be extended in case of significant amount of unpaid IIT
Existence (generation of earnings or trust distribution)	Prior to January 1, 2026	Regardless of income category, resident individuals shall perform retroactive IIT reporting under the category of "income from interest, dividends and bonuses"

IV. Key provisions on IIT administration of offshore trusts

PN No. 15 establishes comprehensive and detailed provisions on the IIT administration of offshore trusts, including tax filing period; competent tax authorities; applicable tax returns, reporting forms, and supporting documentation for each stage and reportable event; available channels for tax declarations; procedures for record filing on instalment tax payments; as well as respective obligations and responsibilities of all relevant parties.

- **Determination of the competent tax authority**

Generally, the competent tax authority for IIT administration on offshore trusts is determined in the following order: the tax authority at the place of registration of the principal domestic production or operation enterprise related to the property transferred into the offshore trust, the tax authority at the place where the taxpayer's property related to the offshore trust is located within China, and the tax authority at the taxpayer's habitual place of residence within China. Taking the scenario where the taxpayer is the actual controller of an overseas-listed company as an example, if the taxpayer controls a domestic enterprise located in Region A through equity or contractual arrangements, and the taxpayer transfers the equity interests or other property associated with the overseas-listed company into an offshore trust, the competent tax authority for the IIT matters on the offshore trust shall be the tax authority at the place of registration of the domestic enterprise, namely the tax authority of Region A.

According to STA's Interpretation of PN No. 15[4], for taxpayers who have already filed their annual IIT reconciliation returns with refunds or additional IIT payable settled for the 2025 tax year, the tax authority handling the annual IIT reconciliation filing shall remain the competent tax authority to facilitate IIT filings in relation to the taxpayers' offshore trusts.

- **Trustee responsibilities**

PN No. 15 also specifies the responsibilities of trustees in the IIT administration of offshore trusts, including accurately accounting for all types of income and earnings the trust generated and distributions made during the operation and management of offshore trusts in accordance with prescribed rules; calculating on an annual basis the "income from interest, dividends and bonuses" and the "income from property transfer" and, assisting resident and non-resident individuals in fulfilling their tax filing, payment, and documentation submission obligations.

The takeaway

The introduction of IIT policies regarding offshore trusts enhances the overall tax transparency and certainty for individuals' offshore trust arrangement, marking a transition of the tax supervision over offshore trusts into a new stage characterized by full-cycle, look-through administration.

Individuals who have already established offshore trusts should conduct a comprehensive review as soon as possible of their tax residency status and existing offshore trust structures, examine and verify the arrangements for property transfers into the trust as well as trust's earnings or distributions, and identify the corresponding tax implications. In cases where there is an IIT underpayment, the taxpayers should fully utilize the 90-day transitional window to avoid late payment surcharges and minimize other related tax risks. Furthermore, in the future management of the offshore trust, attention should be paid to the tax implications of relevant stages and matters to ensure tax compliance. Individuals considering to adjust or newly establish offshore trusts should incorporate the potential tax implications throughout the entire lifecycle of the offshore trust into a comprehensive assessment and management framework, taking into account the newly issued policies.

Given the complexity of tax-related matters concerning offshore trusts, taxpayers are advised to maintain proactive communication with their competent tax authorities and, based on their specific circumstances, ascertain the policy implementation requirements and practices to ensure compliance.

Endnote

1. Public Notice on Matters related to Individual Income Tax on Offshore Trusts (Public Notice of MOF and STA [2026] No. 21)
   https://fgk.chinatax.gov.cn/zcfgk/c102416/c5251277/content.html

2. Public Notice on Matters related to the Collection and Administration of Individual Income Tax on Offshore Trusts (Public Notice of STA [2026] No. 15)
   https://fgk.chinatax.gov.cn/zcfgk/c100012/c5251338/content.html

3. Detailed Implementation Regulations of the Individual Income Tax Law of the PRC
   https://fgk.chinatax.gov.cn/zcfgk/c100010/c5194444/content.html

4. Interpretation of the Public Notice on Matters related to the Collection and Administration of Individual Income Tax on Offshore Trusts
   https://fgk.chinatax.gov.cn/zcfgk/c100015/c5251326/content.html

Let's talk

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

Jeff Yuan
Head of Tax, China
+86 (21) 2323 3495
jeff.yuan@cn.pwc.com

Peter Guo
Tax Markets Leader, China
+86 (10) 6533 3415
p.guo@cn.pwc.com

Rex Chan
North Tax Leader, Chinese Mainland
+86 (10) 6533 2022
rex.c.chan@cn.pwc.com

Ray Zhu
Central Tax Leader, Chinese Mainland
+86 (21) 2323 3071
ray.zhu@cn.pwc.com

Rex Ho
South Tax Leader, China
+852 2289 3026
rex.ho@hk.pwc.com

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For more information, please contact:

Long Ma

+86 (10) 6533 3103

long.ma@cn.pwc.com

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