News Flash
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Latest individual income tax policies on the transfer of restricted shares of listed companies and dividends and bonuses received by foreign individuals

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In brief

On August 28, 2026, the Ministry of Finance (MOF), the State Taxation Administration (STA) and the China Securities Regulatory Commission (CSRC) jointly issued the “Public Notice on Regulating the Individual Income Tax (IIT) Policy on the Transfer of Restricted Shares of Listed Companies”[1] (Public Notice of MOF, STA and CSRC [2026] No. 26, hereinafter referred to as "PN No. 26") to refine the IIT policies and administration requirements for the transfer of restricted shares of listed companies and unify the IIT rules across capital market segments. PN No. 26 took effect on the same day.

On September 1, the MOF and the STA issued the “Public Notice on Matters related to the IIT Policy on Dividends and Bonuses received by Foreign Individuals”[2] (Public Notice of MOF and STA [2026] No. 27, hereinafter referred to as "PN No. 27"), clarifying that the provisional IIT exemption treatment for dividends and bonuses received by foreign individuals from foreign-invested enterprises will no longer be implemented, and the relevant income shall be subject to IIT under the category of "income from interest, dividends, and bonuses". PN No. 27 took effect on the same day.

In this issue of China Tax/Business Insights, we will summarize the key points of PN No. 26 and PN No. 27 and share our observations.

In detail

I. Changes and observations on the IIT policies for the transfer of restricted shares of listed companies

In 2010, with the implementation of the "Notice regarding IIT Treatment on Income derived by Individuals from the Transfer of Restricted Shares of Listed Companies"[3] (Cai Shui [2009] No. 167, hereinafter referred to as "Circular No. 167"), the tax rules for individuals' transfer of listed shares were basically established. Generally, the transfer of restricted shares of listed companies by individuals shall be taxed at 20% as income from property transfer, while the transfer of listed shares obtained from the public offering and trading market (hereinafter referred to as "unrestricted shares") are provisionally exempted from IIT. Several regulations have been successively issued thereafter, including the "Notice on Strengthening the Administration of IIT Collection on the Transfer of Restricted Shares"[4] (Guo Shui Fa [2010] No. 8), the "Supplementary Notice on Matters related to IIT on Income derived by Individuals from the Transfer of Restricted Shares of Listed Companies"[5] (Cai Shui [2010] No. 70, hereinafter referred to as "Circular No. 70"), the "Notice on IIT Matters related to the Transfer of Restricted Shares of Listed Companies following the Completion of Technical and Institutional Preparations of Securities Institutions"[6] (Cai Shui [2011] No. 108, hereinafter referred to as "Circular No. 108"), and the "Public Notice on further Refining IIT Administration and Services related to the Transfer of Restricted Shares of Listed Companies"[7] (Public Notice of STA, MOF and CSRC [2024] No. 14), etc. These regulations refined IIT policies, optimized the tax collection and administration alongside securities institutions' technical and institutional development, thereby forming the IIT policy framework for the transfer of restricted shares of listed companies. In recent years, China's capital market has become increasingly mature, with growing participation by individuals. The issuance of PN No. 26 enhances the IIT policy framework, further regulating the transfers of restricted shares of listed companies from IIT perspective.

1. Adjusting the scope of taxable restricted shares: restricted shares and derived bonus shares and converted shares all included

Under previous IIT policy framework, taxable restricted shares of listed companies include restricted shares and the bonus shares and shares converted from capital reserves (“converted shares”) derived from such restricted shares during the period from the initial listing date (or the trading resumption date upon the completion of the share reform) to the date when restricted shares become tradable. Bonus shares and converted shares derived from restricted shares after the restrictions are lifted are excluded, and as with the transfer of unrestricted shares, the transfer of these derived shares is generally exempted from IIT. Meanwhile, in accordance with Circular No. 70, the original cost of restricted shares shall be adjusted proportionally if bonus shares issuance, share conversion from capital reserves, or share consolidations occur before the lifting of restrictions.

PN No. 26 adjusts the scope of taxable restricted shares, clarifying that bonus shares and converted shares derived from restricted shares after the lifting of restrictions and registered after the implementation of PN No. 26 constitute taxable restricted shares, and that the transfer of such shares shall also be subject to IIT at the rate of 20%. Accordingly, PN No. 26 refines the rules for adjusting the original cost basis of restricted shares in the event of bonus share issuance, share conversions from capital reserves, or share consolidations, regardless of whether such events occur before or after the lifting of restrictions, thereby ensuring the integrity and continuity of the tax basis.

The following example briefly illustrates the changes in the IIT treatment for the transfer of restricted shares of listed companies under the old and new policies. Assuming:

An individual holds 1 million IPO restricted shares of a listed company with an original cost basis of RMB 2/share. 15 months after the lifting of restrictions, the listed company capitalized its surplus reserve on a 10-for-10 basis. The pre-conversion market price is RMB 40/share, dropping to RMB 20/share post-conversion. The individual then sold all restricted shares (ignoring other taxes and fees on share transfers for illustration purpose).

	IIT treatment under previous policies		**IIT treatment under PN No. 26**	
	original restricted shares	**converted shares**	**original restricted shares**	**converted shares**
No. of shares (a)	1 million	1 million	1 million	1 million
Cost basis (b)	RMB 2/share	0 (Note 1)	RMB 1/share (Note 2)	
Sold: No. of shares (c)	1 million	1 million	1 million	1 million
Market price (d)	RMB 20/share		RMB 20/share	
Income subject to IIT (e=c*d)	RMB 20 million	0 (Note 3)	RMB 20 million	RMB 20 million
Cost basis (f=c*b)	RMB 2 million	0	RMB 1 million	RMB 1 million
Taxable income (g=e-f)	RMB 18 million	0	RMB 19 million	RMB 19 million
IIT payable (h=g*20%)	RMB 3.6 million	0	RMB 3.8 million	RMB 3.8 million
Total IIT payable	RMB 3.6 million		RMB 7.6 million	

Note 1: Pursuant to Circular No. 70, where a share conversion occurs after the lifting of restrictions, the original cost basis of restricted shares does not need to be adjusted.
Note 2: Pursuant to PN No. 26, where a share conversion occurs after the lifting of restrictions, the original cost basis of restricted shares shall be adjusted in proportion, resulting in adjusted cost basis of RMB 1/share, i.e. (1 million shares × RMB 2) / (1 million shares + 1 million shares).
Note 3: Pursuant to Circular No. 167, shares converted after the lifting of restrictions do not constitute taxable restricted shares and are eligible for IIT exemption.

2. Strengthening initial declaration of original cost basis of restricted shares, improving the provisional IIT withholding and settlement mechanism

Circular No. 167 stipulates that where a taxpayer fails to provide complete and genuine documentation, making it impossible to accurately calculate the original cost of restricted shares, the original cost basis shall be deemed at 15% of the transfer income from such restricted shares. With the completion of technical and institutional preparations by securities institutions, Circular No. 108 clarifies the initial declaration requirements for the cost basis of restricted shares. For new IPO on or after March 1, 2012, when applying to the securities registration and clearance institutions for initial share registration, the company shall simultaneously furnish detailed information on the cost basis of restricted shares provided by individual shareholders, along with assurance reports issued by accounting firms or tax agent firms.

In cases where relevant cost information and assurance reports cannot be provided, Circular No. 108 permits the securities registration and clearance institutions to deem the transfer cost of restricted shares at 15% of the actual transfer income, and to calculate and withhold the IIT on the share transfer gains accordingly. Where an individual's cost basis of restricted shares is lower than 15% of the actual transfer income, and no initial filing of the original cost has been performed, such approach may result in underpayment of IIT on the share transfer gains.

PN No. 26 emphasizes the initial declaration requirements for the original cost of restricted shares as stipulated in Circular No. 108, refines the IIT withholding rules for cases of non-compliant declaration, and clarifies the IIT settlement filing requirements. When an individual transfers restricted shares, for shares with the initial share registration of listed company completed after the implementation of PN No.26 and the original cost basis not duly declared, securities institutions shall no longer apply the method of deeming the cost basis at 15% of the transfer income, but shall instead apply the 20% tax rate to the full amount of the transfer income for IIT withholding purpose. For existing restricted shares with initial share registration completed before the implementation of PN No. 26, but the original cost basis not declared, the Public Notice provides transitional arrangements, allowing securities institutions to continue deeming the cost basis at 15% of the transfer income and withhold IIT accordingly. It should be noted that the aforementioned two scenarios pertain only to different treatments at the IIT withholding stage. The tax payable on an individual's transfer of restricted shares shall in all cases be calculated based on the actual transfer income and actual cost. Where the IIT withheld is insufficient, the individual shall perform the settlement filing and pay the tax shortfall by June 30 of the year following the transfer. Where the IIT withheld exceeds the tax payable, the individual may apply for a refund through the settlement filing.

3. Unifying relevant policies to promote consistency in tax rules across the multi-tier capital market

The IIT policies on the transfer of restricted shares, with Circular No. 167, Circular No. 70, and Circular No. 108 and other relevant circulars at their core, apply to restricted shares of companies listed on the Shanghai and Shenzhen Stock Exchanges. With the establishment and development of the National Equities Exchange and Quotations (hereinafter referred to as the "NEEQ") and the Beijing Stock Exchange (hereinafter referred to as the "BSE"), the IIT policies and administrative regulations for shares of companies listed on the NEEQ and the BSE have primarily referenced the policies for companies listed on the Shanghai and Shenzhen Stock Exchanges, though certain differences exist. For example, pursuant to the “Notice on IIT Policies for the Transfer of Shares of Companies Listed on the NEEQ”[8] (Cai Shui [2018] No. 137, hereinafter referred to as "Circular No. 137"), the taxable original shares of NEEQ-listed companies include not only shares obtained by individuals before the company's listing and any bonus or converted shares derived therefrom prior to the listing, but also any bonus or converted shares derived therefrom after the listing. Circular No. 137 also clarifies that the specific administrative measures for the transfer of original shares of NEEQ-listed companies shall follow the provisions of Circular No. 167 and Circular No. 70. Following the establishment of the BSE, pursuant to the “Public Notice on the Application of Tax Policies for the Beijing Stock Exchange”[9] (Public Notice of MOF and STA [2021] No. 33), the relevant IIT policies for BSE-listed companies shall temporarily follow the relevant tax provisions applicable to the NEEQ-listed companies.

Building on the refinement of the scope of taxable restricted shares and the IIT collection and administration mechanism for companies listed on the Shanghai and Shenzhen Stock Exchanges, PN No. 26 clarifies that the transfer of restricted shares of companies listed on the Shanghai and Shenzhen Stock Exchanges, original shares of NEEQ-listed companies, and original shares of BSE-listed companies by individuals shall all be governed uniformly by PN No. 26, thereby harmonizing the IIT rules across capital market segments.

PwC Observations:

PN No. 26 refines the scope of taxable restricted shares of listed companies, ensuring that restricted shares and the bonus shares and converted shares derived therefrom are subject to unified IIT rules, thereby enhancing the tax consistency. Restricted shares subject to PN No. 26 include not only the "share reform restricted shares" and "IPO restricted shares" under Article 2 of Circular No. 167, but also restricted shares acquired by individuals through other means as stipulated in Article 1 of Circular No. 70. Furthermore, using the "share registration date" as the dividing point, PN No. 26 brings within the scope of the policy the bonus shares and converted shares derived from restricted shares after the lifting of restrictions and registered after the implementation of the Public Notice. It does not provide retroactive provisions for such derived shares whose share registration has been completed prior to the implementation of the Public Notice.

It is worth noting that, except for the provisions that are inconsistent with the regulations of PN No. 26, the original provisions in the IIT policies related to restricted shares remain valid. For example, where an individual acquires restricted shares at different costs in multiple transactions, the weighted average method should be used to calculate the original cost per share; where an individual holds both restricted shares and unrestricted shares, the transfer of listed company shares should be calculated based on the restricted shares priority principle (i.e., deemed to transfer restricted shares first) to determine the taxable income, etc. After the implementation of PN No. 26, the IIT treatment may be relatively complex in scenarios where an individual holds both restricted shares and unrestricted shares, with multiple bonus share issuance or share conversions occurring before and after the lifting of restrictions, and share registrations completed crossing the implementation date of the Public Notice.

PN No. 26 improves the IIT administration on the transfer of restricted shares of listed companies through strengthening source declaration, adjusting the IIT withholding method, and clarifying the IIT settlement requirements, guiding taxpayers to calculate the tax payable based on the actual transfer income and actual cost, and to fulfill their tax obligations in accordance with the law. The due date for the IIT settlement filing of the transfer of restricted shares is set to be June 30 of the following year, which is synchronized with that for the annual IIT reconciliation filing of comprehensive income, providing convenience for taxpayers to comprehensively review all taxable income and events of the tax year, compile relevant supporting documents, and perform the IIT reconciliation and settlement filings in accordance with the regulations.

II. Changes and observations on the IIT policies on dividends and bonuses for foreign individuals

Pursuant to PN No. 27, dividends and bonuses received by foreign individuals from foreign-invested enterprises shall be subject to IIT at a rate of 20% under the category of "income from interest, dividends, and bonuses". The provisional IIT exemption policy for foreign individuals receiving such income under the “Notice on Several IIT Policy related Matters”[10] (Cai Shui Zi [1994] No. 20) is concurrently abolished. The Public Notice clarifies that the enterprise paying dividends and bonuses shall fulfill its withholding obligations; where the paying enterprise fails to fulfill its withholding obligations, the foreign individual shall fulfill the obligation of self-declaration. With the implementation of PN No. 27, from the perspective of domestic law, the IIT treatment of dividends and bonuses received by individuals from domestic non-listed companies has become consistent, i.e., regardless of the individual's nationality or the nature of the enterprise, such income shall be treated as dividends and bonuses derived from within China and subject to IIT at a rate of 20%.

PwC Observations:

Foreign individuals receiving dividends from domestic enterprises may be eligible to enjoy tax treaty benefits and pay Chinese IIT at the preferential tax rate set out in the applicable tax treaty. It should be noted that the articles in the tax treaty between China and different contracting states vary, and taxpayers must satisfy the conditions of a specific tax treaty and comply with the relevant policy requirements in order to enjoy treaty benefits. For individual taxpayers, a "foreign" individual is not equivalent to a “non-resident” individual under the Chinese IIT law. If a foreign individual constitutes a dual tax resident of China and the other contracting state under the tax treaty, the determination of his/her tax resident status under the tax treaty may involve a more complex assessment.

In addition, individuals enjoying tax treaty benefits shall, in accordance with the provisions of the “Administrative Measures on Non-resident Taxpayers Claiming Tax Treaty Benefits”[11] (STA Public Notice [2019] No. 35), proactively submit the Information Reporting Form to the withholding agent, and retain relevant supporting documents, including the Certificate of Tax Residency of the resident state, for future inspection.

The takeaway

The IIT policies on the transfer of restricted shares of listed companies and the IIT exemption policy for foreign individuals receiving dividends and bonuses from foreign-invested enterprises were both introduced relatively early. The newly issued PN No. 26 and PN No. 27, on the one hand, adjust and refine the relevant policies based on social and economic development changes and past tax practices, enhancing tax consistency and fairness; on the other hand, reflect the continuous optimization and improvement of the IIT collection and administration mechanism, and also impose higher requirements for IIT compliance on capital income.

With the implementation of PN No. 26, companies planning to go public and their individual shareholders need to pay attention to and appropriately advance the cost accounting and verification for restricted shares, ensuring timely and accurate declaration of the original cost of restricted shares held by individual shareholders when applying for initial share registration, so as to avoid the cash flow pressure of having IIT withheld in full based on the transfer income at the time of future reduction of holdings. Individual shareholders holding existing restricted shares should sort out the cost of restricted shares and retain detailed information as early as possible and attach importance to the settlement filing requirements. In particular, if a reduction of holdings occurs and the actual cost is lower than the originally declared cost or the transfer cost assessed at 15% of the transfer income, the individual should perform IIT settlement filing with the in-charge tax authority where the listed company is located by June 30 of the following year to ensure tax compliance.

Foreign-invested enterprises should include foreign individual shareholders in the enterprise's IIT withholding management to ensure fulfilment of withholding obligations in accordance with regulations and avoid tax risks caused by failure to withhold. Meanwhile, enterprises are advised to promptly communicate policy changes to foreign individual shareholders and remind them of the tax compliance requirements. Individual shareholders who determine that they meet the conditions for enjoying treaty benefits should communicate with the dividend-paying enterprise, submit information and compile documents in a timely manner, and enjoy the treaty benefits in accordance with the approach of "self-assessment, claiming treaty benefits, retaining documents for inspection".

Endnote

1. Public Notice on Regulating the Individual Income Tax (IIT) Policy on the Transfer of Restricted Shares of Listed Companies (Public Notice of MOF, STA and CSRC [2026] No. 26)
https://fgk.chinatax.gov.cn/zcfgk/c102416/c5252027/content.html

2. Public Notice on Matters related to the IIT Policy on Dividends and Bonuses received by Foreign Individuals (Public Notice of MOF and STA [2026] No. 27)
https://fgk.chinatax.gov.cn/zcfgk/c102416/c5252107/content.html

3. Notice regarding IIT Treatment on Income derived by Individuals from the Transfer of Restricted Shares of Listed Companies (Cai Shui [2009] No. 167)
https://fgk.chinatax.gov.cn/zcfgk/c102416/c5203570/content.html

4. Notice on Strengthening the Administration of IIT Collection on the Transfer of Restricted Shares (Guo Shui Fa [2010] No. 8)
https://fgk.chinatax.gov.cn/zcfgk/c100012/c5194128/content.html

5. Supplementary Notice on Matters related to IIT on Income derived by Individuals from the Transfer of Restricted Shares of Listed Companies (Cai Shui [2010] No. 70)
   https://fgk.chinatax.gov.cn/zcfgk/c102416/c5203604/content.html

6. Notice on IIT Matters related to the Transfer of Restricted Shares of Listed Companies following the Completion of Technical and Institutional Preparations of Securities Institutions (Cai Shui [2011] No. 108)
   https://fgk.chinatax.gov.cn/zcfgk/c102416/c5203800/content.html

7. Public Notice on further Refining IIT Administration and Services related to the Transfer of Restricted Shares of Listed Companies (Public Notice of STA, MOF and CSRC [2024] No. 14)
   https://fgk.chinatax.gov.cn/zcfgk/c100012/c5237400/content.html

8. Notice on IIT Policies for the Transfer of Shares of Companies Listed on the NEEQ (Cai Shui [2018] No. 137)
   https://fgk.chinatax.gov.cn/zcfgk/c102416/c5202370/content.html

9. Public Notice on the Application of Tax Policies for the Beijing Stock Exchange (Public Notice of MOF and STA [2021] No. 33)
   https://fgk.chinatax.gov.cn/zcfgk/c102416/c5202074/content.html

10. Notice on Several IIT Policy related Matters (Cai Shui Zi [1994] No. 20)
    https://fgk.chinatax.gov.cn/zcfgk/c102416/c5202580/content.html

11. Administrative Measures on Non-resident Taxpayers Claiming Tax Treaty Benefits (STA Public Notice [2019] No. 35)
    https://fgk.chinatax.gov.cn/zcfgk/c100012/c5194891/content.html

Let's talk

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News Flash
China Tax and Business Advisory

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