7 September 2026

China ends dividend tax exemption for foreign individual shareholders: what it means for foreign founders and executives

China's Ministry of Finance and the State Taxation Administration have jointly announced the end of a long-standing tax break: the individual income-tax exemption on dividends that foreign individuals receive from foreign-invested enterprises (FIE) has been scrapped, effective immediately. The exemption dated back to 1994, when it was introduced to help attract foreign investment during China's reform and opening-up drive.

The new Rule

Under the new framework, dividends received by foreign individuals from foreign-invested enterprises will now be taxed as "interest, dividends and bonus income" at a flat rate of 20 percent. For individuals whose home country taxes worldwide income, the 20 percent paid in China can generally be credited against home-country tax liabilities, so the overall burden may not increase materially in practice - though this depends on the applicable double-tax treaty and each individual's residence-country rules, and should be checked case by case.

Official Rationale

Chinese experts have framed the move as intended to deliver equal treatment across market players rather than as a tightening of the regime for foreign investors. According to Li Yong, an executive council member of the China Society for World Trade Organization Studies, the provision targets tax incentives for foreign investors which were a product of China's early reform-era approach, and as the country's strategy for attracting foreign capital has evolved, tax preferences are no longer viewed as a primary lever. Officials point instead to China's domestic market scale, industrial clusters and supply chains as what now draws foreign investors, citing continued growth in newly established foreign-funded enterprises as evidence of this trend.

Importantly, the adjustment is described as targeting only dividend income received by foreign individual shareholders, not a broader tightening of policy toward foreign capital; it comes alongside continued efforts by the Ministry of Commerce and other authorities to widen market access and improve the business environment for foreign-funded enterprises, including a 15-measure action plan released in June.

Some Practical Implications

The key point for foreign entrepreneurs and executives in China is that this change is targeted at individuals, not corporate structures; it affects

individual foreign shareholders receiving dividends directly from a China-based FIE they hold personally - typically founders, individual investors, or executives with a direct equity stake.

On the other side, entities held through corporate holding structures (i.e., a foreign company owning the Chinese FIE, rather than a natural person) are not the target of this particular change.

The exemption was withdrawn effective immediately upon announcement, so there is no window to plan around for dividends declared going forward. For foreign individuals planning dividend distributions from their China operations, the immediate effectiveness means any distribution declared after the announcement is subject to the new 20 percent rate - there is no scope to accelerate a distribution under the old exemption.

This development sits alongside another area of uncertainty for foreign talent and executives in China: the preferential individual income tax treatment for foreign employees (covering benefits such as housing, education for children, and language training, taxed favourably instead of being folded into the standard progressive IIT brackets). That regime remains formally extended through December 31, 2027, though questions remain over whether it will be renewed past that horizon. Foreign executives and the companies that employ them should treat both changes as linked signals: the dividend exemption withdrawal is now confirmed and in effect, while the fate of the foreign employee deduction scheme remains open and warrants monitoring as its 2027 sunset approaches.

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