CHINA UNVEILS LANDMARK TAX RULES ON OFFSHORE TRUSTS

On July 24, 2026, China's Ministry of Finance and the State Taxation Administration jointly issued the ***Announcement on Relevant Matters Concerning Individual Income Tax on Offshore Trusts***, establishing China's first comprehensive IIT regulatory framework for offshore trusts.

The landmark rulings end decades of regulatory ambiguity surrounding offshore trust taxation in China. Adopting a substance-over-form principle and look-through taxation mechanism, the new rules mandate taxation on all trust-derived income, regardless of actual distribution to beneficiaries. Supported by CRS information exchange and domestic tax data systems, the reforms close long-standing enforcement loopholes and impose standardized, mandatory compliance obligations on offshore trusts.

I. IN-DEPTH ANALYSIS OF CORE TAX PROVISIONS

(1) Establishment Stage: Deemed Asset Disposal and Triggered Tax Obligations

Where a Chinese tax resident individual transfers property (including movable property, listed and unlisted shares, real estate and all other forms of property) into an offshore trust, or transfers property to an overseas entity that is held, controlled, or managed by an offshore trust or its trustee for the purposes of holding, administration, utilization, or disposal, such transfer shall be deemed as a property disposal. The taxable income is calculated as the fair market value (FMV) of the transferred assets at the time of contribution minus the original acquisition cost and eligible reasonable expenses, and shall be subject to a 20% IIT rate under the category of income from property transfer.

Meanwhile, a strict nominee look-through rule is enforced: property transfers conducted via third-party individuals or entities shall be attributed to the resident settlor if the assets are ultimately funded, controlled, or economically borne by the settlor, who shall bear corresponding tax liabilities.

(2) Ongoing Holding & Income Accumulation Stage: Look-Through Taxation

During the existence of an offshore trust into which a resident individual has transferred property, as well as any overseas entity held, controlled, or managed by such offshore trust, all income generated during the existence of the trust, whether or not actually distributed, shall be taxable to that resident individual and subject to individual income tax on an annual basis.

- **Income classification and tax rate:** All taxable income falls into two categories, both subject to a unified 20% IIT rate: "property transfer income" or "interest, dividend and bonus income".
- **Strict loss limitation rules:** The amount of taxable income from "property transfer income" shall be calculated as the balance of the total property transfer proceeds received during a tax year after deducting the original cost of the property and reasonable expenses. Losses shall NOT be carried forward to subsequent tax years for deduction. "Property transfer income" and "interest, dividend and bonus income" shall not be offset against each other.
- **Expenses deduction limits**: Trustee remuneration, trust administration fees, legal service fees, investment advisory fees, and other expenses incurred in connection with the establishment and existence of the offshore trust shall not be deducted in calculating taxable income.
- **Double taxation elimination mechanism:** Trust income for which the resident individual has declared and paid individual income tax in accordance with the provisions shall not be subject to individual income tax again upon actual distribution.

(3) Special Trigger Events: Trust Termination, Residency Change and Settlor's Death

- **Trust termination:** Upon the termination of a resident individual's offshore trust, the resident individual shall, as the taxpayer, declare and pay individual income tax under the category of "interest, dividend and bonus income", with the liquidation gains from all trust property of the offshore trust as the taxable income.

- **Change of tax residency status:** Where the resident individual becomes a non-resident individual, the resident individual shall declare and pay individual income tax under the category of "interest, dividend and bonus income", with the balance of the market value of the trust property on the date the individual becomes a non-resident individual after deducting its original cost as the taxable income.

- **Death of the Resident Settlor:** If the resident individual dies and the offshore trust is succeeded to by another non-resident individual or remains without any successor, the trustee or its designated domestic institution shall, as the taxpayer, declare and pay individual income tax on behalf of the resident individual under the category of "interest, dividend and bonus income". Where, after the death of a resident individual, the offshore trust is succeeded to by another resident individual, it shall be deemed a resident individual's offshore trust, and the succeeding resident individual shall declare and pay individual income tax in accordance with the provisions of this Announcement.

(4) Differentiated Rules for Non-Resident Settlor Trusts

- **Establishment stage:** Where a non-resident individual transfers property into an offshore trust, the individual shall be deemed to have transferred the property and shall declare and pay individual income tax on income from the transfer of property derived from sources within China under the category of "property transfer income”.
- **Ongoing operation:** Where income from an offshore trust into which a non-resident individual has transferred property is distributed to a resident individual during the existence of the trust, the resident individual shall, as the taxpayer, declare and pay individual income tax under the category of "interest, dividend and bonus income."
- **Termination stage:** Upon the termination of an offshore trust into which a non-resident individual has transferred property, where a resident individual acquires the trust property, the resident individual shall declare and pay individual income tax under the category of "interest, dividend and

bonus income," with the market value of the trust property at the time of termination as the taxable income.

- **Core anti-avoidance rules:** The substance-over-form principle applies to disguised structures. If a non-resident-established trust is actually funded, controlled or enjoyed by a Chinese tax resident, it will be reclassified as a resident settlor trust and fully subject to the full set of resident tax rules. Nominal distributions to non-residents that ultimately benefit resident individuals are deemed taxable distributions to Chinese residents.

(5) Tax Filing Deadlines

Trigger Event	Tax Filing Deadline
Resident settlor: Trust establishment	March 1 – June 30 of the subsequent tax year
Non-resident settlor: Transfer China-sourced property into offshore trust	Within 15 days of the month following asset transfer
Annual income declaration	March 1 – June 30 of the subsequent tax year
Trust liquidation and termination	Within 15 days of the month following liquidation completion
Death of the settlor	Within 15 days of the month following the date of death
Resident-to-non-resident status change	Within 15 days of the month following status alteration

Taxpayers encountering genuine financial difficulties when settling taxes for trust termination or settlor's death may apply to the competent tax authority for a five-year installment payment plan after completing official filing, with no additional penalties for approved installments.

(6) Transitional Policies & 90-Day Compliance Grace Window

To ensure smooth policy implementation, the authorities have set clear transitional arrangements for pre-existing offshore trusts established before the rule's effective date, with a critical self-correction window for historical non-compliance:

- **Establishment-stage historical tax settlement:** Unpaid taxes on property transferred into offshore trusts between January 1, 2023 and December 31, 2025 must be declared and settled in accordance with the new rules. For asset transfers completed before January 1, 2023, tax authorities will generally waive retroactive collection of establishment-stage taxes, except for high-value non-compliant cases subject to extended tax recovery periods under the Tax Collection and Administration Law.
- **Income arising throughout the trust's duration:** For income generated during the existence of a resident individual's offshore trust before January 1, 2026, regardless of the category of income, the resident individual shall declare and pay individual income tax under the category of "interest, dividend and bonus income".
- **90-day penalty-free grace period:** The eligible tax dues declared and fully paid within 90 days of the policy issuance date will be exempt from late payment surcharges. Non-compliance after the grace period will trigger the late payment surcharges, and intentional tax evasion will incur severe administrative penalties and legal liabilities.

II. KEY COMPLIANCE REMINDERS AND PRACTICAL RECOMMENDATIONS

1. Comprehensive Review of Existing Offshore Trusts to Seize the 90-Day Grace Window

Holders of existing offshore trusts shall promptly conduct a comprehensive inventory of trust establishment documents, asset contribution records, annual profit and loss statements, and historical distribution records. It is critical to fully sort out unreported asset transfer gains and accumulated distributed and undistributed income, quantify potential tax liabilities, and complete voluntary declaration and tax settlement during the transitional window to eliminate penalty and compliance risks.

2. Overseas Residency Does Not Automatically Alter Chinese Tax Residency Status

The new rules emphasize economic substance over formal identity. Simply acquiring foreign citizenship, overseas permanent residency or long-term overseas residence permits cannot exempt individuals from offshore trust tax obligations. Individuals whose principal economic interests are derived from within China may be determined to be resident individuals who have a domicile in China.

3. Considerations for Non-Resident & Foreign Settlors

Non-resident and foreign settlors are not fully exempt from PRC tax under the new rules. It is advisable to carry out proactive compliance review in three key aspects: reviewing the trust's underlying asset portfolio to identify any China-sourced assets that may generate tax implications upon injection; assessing trust beneficiary structures and distribution arrangements to evaluate potential indirect economic benefits extended to PRC tax residents; and verifying individual PRC tax residency status to ensure accurate tax positioning. It is worth noting that foreign passports or overseas residency do not conclusively determine non-PRC tax residency status. In addition, trusts nominally held by foreign parties but substantively funded or controlled by PRC residents may be subject to tax penetration treatment. Appropriate advance review and structural fine-tuning can effectively help mitigate potential cross-border tax compliance risks.

4. Substantial Practical Uncertainties Surround Fair Market Valuation of Trust Assets

Tax calculation at all key taxable nodes — property transfers, annual income recognition, residency status change, trust termination and settlor inheritance — relies entirely on the fair market value of underlying trust assets. Offshore trust portfolios typically cover listed equity, private company shares, global real estate, private equity funds and alternative assets, bringing significant valuation complexity. It is highly recommended to pre-confirm feasible valuation methodologies with competent tax authorities and retain full valuation documentation for future inspection.

5. Clarify Primary Tax Liability Subject

Resident settlors are responsible for filing tax returns on income connected with offshore trusts (for offshore trusts established by non-resident settlors, the applicable taxpayer shall be determined based on the specific transaction circumstances). Failure to file or submission of false returns may lead to tax recovery, late payment surcharges and administrative penalties.

6. New Offshore Trusts: Evaluate Tax Impacts Across the Entire Lifecycle

High-net-worth individuals planning to establish offshore trusts for legitimate purposes such as asset protection and family succession should conduct holistic tax analysis covering asset contribution, ongoing holding, residency changes and wealth transfer in light of the new rules. Corresponding supporting arrangements shall be put in place in advance to ensure full tax compliance.

III. CONCLUSION

The release of the 2026 Announcement No. 21 ushers in a new era of rigorous, full-cycle, end-to-end and look-through tax regulation for offshore trusts in China, closing the previous regulatory gaps and ambiguities. Powered by CRS information exchange and domestic tax big data capabilities, traditional tax avoidance tactics — including exploiting policy uncertainties, information gaps, and layered offshore structures — may be no longer viable.

For high-net-worth individuals, the immediate priority is to conduct a comprehensive offshore trust tax risk review, rectify historical non-compliance proactively, and take full advantage of the 90-day grace period exempt from late payment surcharges specified in the new announcement. Moving forward, ongoing tax compliance must be integrated into daily offshore trust management, enabling standardized family asset governance and sustainable intergenerational wealth succession on a fully compliant basis.

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