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Tax

Regulations for the Implementation of the VAT Law of the People's Republic of China

Issued by: State Council
Issue No.: State Council Decree No. 826
Release Date: December 30, 2025
Effective Date: January 1, 2026
Links: https://www.gov.cn/zhengce/content/202512/content_7053149.htm

On December 30, 2025, the State Council promulgated the *Regulations for the Implementation of the VAT Law* (the "Implementation Regulations"). As a key supporting regulation for the VAT Law, the Implementation Regulations will come into effect simultaneously with the VAT Law on January 1, 2026. Compared to the original "*Provisional Regulations on VAT*" and the "*Detailed Rules for the Implementation of the Provisional Regulations on VAT*" (collectively referred to as the "Former Regulations"), the key points and main changes include:

- Specify the criteria for determining "services and intangible assets are consumed within China"

Services or intangible assets supplied by an overseas entity or individual are deemed to be consumed within the territory of China and therefore subject to VAT if the purchaser is a domestic entity or individual (except where the service is consumed on-site outside China), or the supply is directly connected to goods, real estate or natural resources located in China, or any other circumstance prescribed by the Ministry of Finance and the State Taxation Administration applies.
- The administration of small-scale taxpayers is increasingly stringent.

For details, please refer to the "No. 2, 2026 of the Announcement of the State Administration of Taxation".
- Abolish the 5% collection rate

The tax treatment for taxable transactions previously subject to the 5% collection rate awaits clarification in forthcoming regulations.
- Restructure the tax treatment rules for "mixed sales"
 - 1) Mixed sales are no longer limited to the combination of "goods + services". Any single transaction involving two or more different VAT rates or collection rates may constitute a mixed sale.
 - 2) The applicable VAT rate for mixed sales is now determined by the "principal transaction" rather than the taxpayer's main line of business. The principal activity must reflect the substance and purpose of the transaction, while the ancillary activity is a necessary supplement to the principal activity and is premised on the occurrence of the principal activity. The determination of the principal-ancillary relationship involves professional judgment and may become a focal point for future disputes between taxpayers and tax authorities.
- Significant simplification of situations deemed as taxable transactions
 - 1) The situation of gratuitous transfers of financial products is added.

2) Notably, gratuitous provision of services (such as interest-free loans, rent-free leases, etc.) is no longer treated as a deemed taxable transaction.

- Clarify that input VAT on interest expenses for loan services is "temporarily" non-deductible.

Input VAT corresponding to interest expenses for purchasing loan services and fees paid directly to lenders related to loans (such as investment and financing advisory fees, handling charges, consulting fees, etc.) are temporarily non-deductible. However, relevant authorities should study and evaluate the implementation effects of this policy in due course, leaving room for potential future policy adjustments.

- Revise input tax credit rules for long-term assets with mixed uses

For single long-term assets used both for general VAT calculation projects and for projects where input VAT is non-deductible, management is differentiated based on the original value amount:

- 1) If the original value does not exceed RMB 5 million, the input VAT can be fully credited.
- 2) If the original value exceeds RMB 5 million, the input VAT is fully credited upon acquisition. Subsequently, the non-deductible input VAT is calculated and adjusted annually based on the adjustment period.

- Add new administration rules for taxable transactions by natural persons

When a natural person engages in a taxable transaction, the domestic entity making the payment is the withholding agent and shall withhold and remit VAT.

- Add time limits for export business declarations

If an export business fails to declare within the prescribed time limit, it will be treated as a domestic sale and subject to VAT.

- For the first time, a general anti-avoidance clause has been added at the VAT regulatory level.

Announcement on Matters Concerning the Administration of the Registration of General VAT Taxpayers

Issued by: State Administration of Taxation
Issue No.: No. 2, 2026 of the Announcement of the State Administration of Taxation
Release Date: January 1, 2026
Effective Date: January 1, 2026
Links: <https://fgk.chinatax.gov.cn/zcfgk/c100012/c5246538/content.html>

This Announcement aims to implement the requirements of the *VAT Law of the People's Republic of China* and its corresponding implementation regulations, and further clarify the administrative matters concerning the registration of VAT taxpayers (the "general taxpayers"). Its main contents are as follows:

- Registration Criteria and Scope
 - 1) A VAT taxpayer (the "taxpayer") whose annual taxable sales exceed the threshold for small-scale taxpayers (the "exceeding the threshold") and who does not fall within either of the two exceptions—(i) natural persons, or (ii) non-enterprise entities that do not engage in taxable

transactions frequently and whose principal business is not within the scope of taxable transactions choose to pay taxes as a small-scale taxpayer—shall apply for registration as a general taxpayer.

- 2) A taxpayer whose annual taxable sales do not exceed the threshold and who has a sound accounting system may apply for registration as a general taxpayer.
- Calculation of Sales Amount
 - 1) The taxable sales are calculated on a rolling basis over any consecutive twelve-month or four-quarter period, excluding occasional sales of intangible assets or immovable property.
 - 2) Sales adjustments resulting from self-initiated supplementation or correction, risk control review, or tax audit and assessment are allocated to the tax period in which the tax liability arose, instead of being attributed to the period in which the adjustment is made.
 - Time Limit for Registration Formalities
 - 1) If exceeding the threshold is caused by a sales adjustment, the formalities shall be completed within 10 working days from the date of the adjustment.
 - 2) For exceeding the threshold under other circumstances, the formalities shall be completed within the declaration period of the month following the month in which the threshold is exceeded.
 - 3) If the relevant formalities are not completed within the prescribed time limit, the taxpayer shall be managed as a general taxpayer starting from the 5th working day after the expiry of the prescribed time limit.
 - Effective Date and Filing Alignment
 - 1) Effective rules: For taxpayers that exceed the threshold, general-taxpayer status takes effect on the first day of the period in which the threshold is exceeded, replacing the former rule that the status took effect on the first day of the month of (or after) registration. For taxpayers that register voluntarily without exceeding the threshold, the status takes effect on the first day of the period in which the registration formalities are completed.
 - 2) Transitional provisions: For taxpayers whose sales exceeded the threshold during the fourth quarter of 2025 or the December 2025 filing period, or who applied the VAT rate but were ineligible to credit input VAT before 1 January 2026, the effective date shall be January 1, 2026. Where adjustments to sales for 2025 or earlier periods cause the threshold to be exceeded, the effective date shall be no earlier than January 1, 2026.
 - 3) Where a taxpayer has already filed VAT returns as small-scale taxpayer on or after the effective date of general taxpayer status, the taxpayer shall correct the VAT filings on a period-by-period basis in accordance with the rules applicable to general taxpayers. And VAT deduction vouchers obtained on or after the effective date of general taxpayer status are allowed to be confirmed with the use as input credit on a period-by-period basis.
 - Abolition of the Guidance-Period Management: The guidance-period management for general taxpayers is abolished with effect from January 1, 2026. Any balance of prepaid VAT arising from previous applications for additional special VAT invoices may be offset against future VAT payable or refunded.

Announcement on VAT Policy for Individual Sales of Housing

Issued by: State Taxation Administration
Issue No.: Announcement of the Ministry of Finance and the State Taxation Administration No. 17 [2025]
Release Date: December 29, 2025
Effective Date: January 1, 2026
Links: <https://fgk.chinatax.gov.cn/zcfgk/c102416/c5246356/content.html>

This Announcement unifies the VAT policy for individual sales of housing nationwide, with specifics as follows:

- **Removal of Housing Type Distinction:** No distinction will be made between ordinary and non-ordinary housing.
- **Clarified Definition of "Individual":** This does not include general VAT taxpayers among individual industrial and commercial households.
- **Adjustment of Levy Rate:** For housing sold within 2 years of acquisition, the levy rate is reduced from 5% to 3%. For housing sold 2 years or more after acquisition, VAT is exempted.
- **Transitional Arrangements:** Individuals who have completed sales before January 1, 2026, but have not yet filed a declaration, may follow the new policy.

Legal

Guidelines for Enterprise Deregistration (2025 Revision)

Issued by: State Administration for Market Regulation, Ministry of Public Security, Ministry of Human Resources and Social Security, People's Bank of China, General Administration of Customs, State Taxation Administration
Issue No.: [2025] No. 52
Release Date: December 12, 2025
Effective date: December 12, 2025
Links: https://www.gov.cn/zhengce/zhengceku/202512/content_7053238.htm

The *Guidelines for Enterprise Deregistration* were jointly formulated by the State Administration for Market Regulation and relevant departments in 2019, have undergone two revisions in 2021 and 2023, and this is the third revision. Compared with the 2023 version, the main changes are as follows:

- **Expansion of Formulating and Participating Authorities:** the 2023 version of the Guidelines was jointly issued by only 3 departments: State Administration for Market Regulation, General Administration of Customs, and State Taxation Administration. In contrast, the 2025 version is jointly issued by 6 departments, adding 3 departments: Ministry of Public Security, Ministry of Human Resources and Social Security, and People's Bank of China, covering more aspects in the deregistration process such as filing of seals deregistration, closure of social security accounts and bank accounts.
- **Updates in Line with New Laws and Regulations:** the new *Company Law of the People's Republic of China* implemented on July 1, 2024, has made significant adjustments to matters such as dissolution

announcement, liquidation obligors, and compulsory deregistration. The newly issued Implementation Measures for the Administration of Company Registration has clarified the solutions for "cases where shareholders (investors) have been deregistered or deceased". The 2025 version of the Guidelines has been revised in accordance with the above laws and regulations.

- Improvement of Handling Guidelines for Special Circumstances: Relevant mechanism has been improved by fully incorporating effective practices developed by local authorities in dealing with special circumstances, such as uncooperative or uncontactable corporate shareholders, loss of business licenses (or company seals), and uncooperative legal representatives. For instance, in cases where a company is unable to organize its own liquidation, in addition to "creditors, shareholders, and interested parties," the "relevant department that made the decision to revoke the business license, order closure, or rescind the company" has been added as an eligible applicant. Such parties may apply to the court for the appointment of relevant persons to form a liquidation team and carry out the liquidation.
- Significant Increase in Clauses on Deregistration Liabilities and Related Notifications: the number of such clauses has increased from 19 in the 2023 version to 27 in the 2025 version. Legal liabilities are further clarified for actions such as compulsory deregistration, fraudulent representation, and the abuse of a company's legal independence and shareholders' limited liability to conduct fraudulent deregistration.
- Special Addition of Content Related to the "One-Stop Service for Enterprise Deregistration": relevant authorities may achieve coordinated processing through information sharing, facilitating enterprises in completing deregistration procedures.

Foreign Exchange & Finance

Notice on Matters Concerning the Integrated Domestic and Foreign Currency Capital Pool Business of Multinational Corporations

Issued by: People's Bank of China, State Administration of Foreign Exchange
Issue No.: Yinfa [2025] No. 251
Release Date: December 26, 2025
Effective date: December 26, 2025
Links: <https://www.safe.gov.cn/safe/2025/1226/26960.html>

Since 2021, the People's Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE) have actively promoted the pilot programs of the integrated domestic and foreign currency capital pool (the "high-tier capital pool") and centralized cross-border fund operation (the "low-tier capital pool") in Shenzhen, Beijing, Guangdong and other places. Building on the experience gained from these pilot programs, the Notice promotes the high-tier capital pool nationwide, primarily serving large multinational corporations with relatively high access thresholds. The main contents are as follows:

- Establish a Unified Framework for Integrated Domestic and Foreign Currency Capital Pool
 - 1) Incorporate the domestic and foreign currency capital pool business into unified management, and encourage enterprises to carry out capital pool business in domestic currency.
 - 2) Set a one-year transition period. For those already engaged in other cross-border fund pooling operations and have obtained the fund pooling business filing under this Notice, the funds and

accounts related to these other cross-border fund pooling operations must be cleaned up within the transition period.

- Access Conditions: In addition to meeting the basic compliance conditions, multinational corporations shall also meet the following quantitative indicators:

- 1) No fewer than three domestic and overseas member enterprises shall participate in the capital pool business;
- 2) All domestic member enterprises: the total amount of domestic and foreign currency international receipts and payments in the previous year shall be \geq RMB 7 billion, and the total operating revenue in the previous year shall be \geq RMB 10 billion; All overseas member enterprises: the total operating revenue in the previous year shall be \geq RMB 2 billion.

- Functions of the Integrated Domestic and Foreign Currency Capital Pool

- 1) Centralized Foreign Loan and Overseas Lending Quotas

- Domestic member enterprises may independently determine the portion of centralized foreign loan or overseas lending quota, with the centralized ratio being adjustable no more than once per year.
- Centralized quota for foreign loan: tentatively set at 3.5 times the audited owner's equity of the leading enterprise and domestic member enterprises from the previous year (for domestic member enterprises opting for partial centralization, the calculation is based on the centralized ratio). This policy is basically consistent with the foreign loan quota under the current macro-prudential model, but the foreign loan quota calculation for general enterprises also needs to consider the "maturity risk conversion factor".
- Centralized quota for overseas lending: tentatively set at 0.8 times the audited owner's equity of the leading enterprise and domestic members from the previous year (for domestic member enterprises opting for partial centralization, the calculation is based on the centralized ratio). This is more preferential than the overseas lending policy for general enterprises and low-tier capital pools (currently 0.5 times the owner's equity).

- 2) Centralized Collection & Payment and Netting Settlement of Current Account Funds

- Centralized collection & payment: the leading enterprise through its domestic main fund account, centrally handles current account receipts and payments such as those for goods and services on behalf of domestic enterprises.
- Netting settlement of current account funds: the leading enterprise, through its domestic main fund account, consolidates the current account receivables and payables of domestic and overseas member enterprises over a specified period, settling them as a single net amount.

- 3) Centralized Collection & Payment Business for Overseas Transactions of Overseas Member Enterprises

The leading enterprise may handle the centralized collection and payment business of trade-related funds between overseas member enterprises and overseas counterparties through the domestic main fund account. This business activity utilizes the centralized foreign loan quota that has been filed and approved for the leading enterprise.

- Functions of the Domestic Main Fund Account

- 1) Settlement of capital account income: after the settlement of capital account funds into RMB, the RMB funds may still be deposited in the domestic main fund account, without the need to transfer them to the settlement-to-payment account.
- 2) Facilitation of capital account payment: When using capital account income for payments, after committing to the authenticity and compliance of the transaction, the funds can be directly processed through the cooperating bank. Documentation verifying the authenticity of each transaction doesn't have to be submitted to the bank in advance.

Administrative Measures on M&A Loans by Commercial Banks

Issued by: National Financial Regulatory Administration
Issue No.: Jingui [2025] No. 27
Release Date: December 31, 2025
Effective Date: December 31, 2025
Links: https://www.gov.cn/zhengce/zhengceku/202601/content_7053613.htm

The introduction of these Measures constitutes a comprehensive revision of the 2015 edition of the *Guidelines for Risk Management of Commercial Bank M&A Loans*. The main revisions are as follows:

- Expanded Scope of Application for M&A Loans:
 - 1) Building upon the existing framework for M&A loans for control, the Measures now permit the use of M&A loans for holding non-controlling shares (equity participation-type), provided that the single acquisition of the target enterprise's equity interest is not less than 20%.
 - 2) The Measures explicitly allow for "M&A loans for maintaining or enhancing control" and "M&A loans for increasing the shareholding ratio."

For maintaining or enhancing control: A single acquirer that has obtained control over the target enterprise may apply for an M&A loan for control if it acquires or subscribes for the equity of the target enterprise to maintain or enhance control (with a single acquisition of not less than 5% equity interest).

For increasing the shareholding ratio: A single acquirer that already holds 20% or more of the equity in the target enterprise may apply for an M&A loan for holding non-controlling shares, provided it seeks to acquire or subscribe to additional shares to increase its shareholding ratio without obtaining control (with a single acquisition of no less than 5% equity interest).

- Clarification and Optimization of Loan Conditions:
 - 1) The cap on the proportion of M&A loans for control in the total transaction value has been raised from 60% to 70%, with the maximum loan term extended from 7 years to 10 years.
 - 2) The Measures stipulate that the proportion of M&A loans for holding non-controlling shares in the total transaction value shall not exceed 60%, and the loan term shall be no longer than 7 years.
 - 3) The equity contribution ratio for M&A loans for control must be no less than 30%, and that for M&A loans for holding non-controlling shares no less than 40%.
- New Provisions on M&A Loan Substitution:

- 1) The use of new M&A loans to refinance existing M&A loan facilities is prohibited.
 - 2) M&A loans may be used to refinance the acquisition consideration already paid by the acquirer, provided that all applicable requirements (including the minimum equity contribution ratio) are satisfied. In such cases, the initial drawdown of the M&A loan must occur within one year of the completion of payment for the acquisition consideration being refinanced.
- Eligibility Requirements for Commercial Banks

The Measures establish differentiated eligibility criteria (such as minimum asset size requirements) for banks intending to provide M&A loans for control acquisitions versus those for holding non-controlling shares. Only banks that satisfy the respective requirements are permitted to undertake such businesses. Notably, the entry thresholds are set higher for banks engaging in M&A loans for holding non-controlling shares.

Measures for the Administration of Identification of Beneficial Owners of Customers of Financial Institutions

Issued by: People's Bank of China
Issue No.: Order of the People's Bank of China [2025] No. 12
Release Date: December 19, 2025
Effective Date: January 20, 2026
Links: <https://www.pbc.gov.cn/tiaofasi/144941/144957/2025121919412749702/index.html>

The Measures align precisely with the relevant provisions on customer due diligence and beneficial owner information management. By establishing a unified standard for beneficial owner identification, developing a risk-based differentiated mechanism, and forming a regulatory closed loop, the Measures enhance the practical capabilities of financial institutions in anti-money laundering (AML) and counter-terrorist financing (CTF), and effectively ensure the compliant operation and transparent development of financial businesses. The core points are as follows:

- Scope of application: it applies to all financial institutions required to perform customer due diligence, including banks, securities firms, insurance companies, and payment institutions.
- Core principles and applicable subjects: Financial institutions shall follow the three principles of "risk-based, reasonableness, and reliability" to conduct identification and verification of beneficial owners for all non-natural person customers (excluding individual industrial and commercial households).
- Clear identification standards for beneficial owners are established, with strengthened requirements for penetration verification to ensure tracing back to the ultimate natural persons.
 - 1) Legal persons and non-legal person entities: the identification standards are consistent with the Administrative Measures for Beneficial Owner Information. A beneficial owner is identified if any of the following conditions are met: a) direct or indirect ultimate ownership of over 25% of equity/rights; b) entitlement to over 25% of profit rights/voting rights; c) sole or joint de facto control. If none of the above conditions apply, the person responsible for daily operations and management shall be identified as the beneficial owner.
 - 2) Branches: Domestic branches directly adopt the beneficial owner information of their head

companies. For branches of foreign companies, in addition to identifying the beneficial owners of the head companies, at least one local senior executive shall be identified as a beneficial owner.

- 3) Trusts: Trust parties (settlers, trustees, beneficiaries, etc.) or other natural persons exercising ultimate effective control over the trust.
 - 4) Asset Management Products: Refer to the identification standards for legal persons and non-legal person entities.
- Standardize the requirements for beneficial owner identification and verification.
 - 1) Clarify the overall process and requirements for identifying and verifying beneficial owners, as well as the information elements to be identified and retained.
 - 2) Adopt differentiated identification and verification measures based on risk: Exemptions or simplified procedures may apply to low-risk scenarios, while enhanced measures shall be taken for high-risk scenarios (e.g., customers/transactions from high-risk countries, overly complex equity structures preventing verification, frequent and unjustified changes in senior management /beneficiaries). If a financial institution’s risk management capacity is exceeded even after setting limits on transaction amounts, frequency, or product types, it shall refuse or terminate the business relationship.
 - 3) High-Risk Association Analysis: When a natural person customer is identified as high-risk, the financial institution shall screen all non-natural person customers for whom that individual acts as a beneficial owner within the institution, conduct association analysis, and implement necessary customer due diligence or anti-money laundering risk management measures.
 - 4) Ongoing Requirements: Throughout the customer’s business relationship, financial institutions shall continuously monitor the customer’s overall status and transaction activities, updating beneficial owner information in a timely manner.

Recent Hot Topics

- With the *VAT Law and its Implementing Regulations* taking effect on January 1, 2026, what are the anticipated impacts on companies’ accounting and tax-filing work?
- After a company’s deregistration, does the tax authority retain the right to pursue any outstanding liabilities and impose corresponding penalties? Can the shareholders be held jointly and severally liable for the company’s obligations that existed prior to deregistration?
- Ministry of Finance has recently released an exposure draft revising CAS 30 “*Presentation of Financial Statements*” and its accompanying income statement template. What are the main proposed changes, and what early steps should companies take to prepare?

If you are interested in the above topics, please feel free to contact us:

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