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Tax

Announcement on the Tax Credit Policy for Direct Investment by Foreign Investors Using Distributed Profits

Issued by: Ministry of Finance, State Taxation Administration, Ministry of Commerce
Issue No.: Announcement No. 2 of 2025 of the Ministry of Finance, the State Taxation Administration, and the Ministry of Commerce
Issue Date: June 30, 2025
Effective Date: January 1, 2025
Links: https://szs.mof.gov.cn/zhengcefabu/202506/t20250630_3966887.htm

The following announcement is made regarding the preferential tax credit policies for direct investment by foreign investors using distributed profits:

- During the period from January 1, 2025 to December 31, 2028, if a foreign investor uses profits distributed by a resident enterprise in China for direct domestic investment that meets the following conditions, it may credit 10% of the investment amount against the tax payable for the current year. Any unused credit in the current year may be carried forward to subsequent years. If the applicable tax treaty rate is lower than 10%, the tax treaty rate shall apply.
 - 1) The profits must be income from equity investment such as dividends derived from the actual distribution of retained earnings by domestic resident enterprises;
 - 2) It includes equity investments such as capital increase, new establishment, and equity acquisition from non-related parties;
 - 3) The industry of the invested enterprise must be within the scope of nationally encouraged industries listed in the Catalogue of Encouraged Industries for Foreign Investment;
 - 4) The foreign investor must continuously hold the investment for at least 60 months;
 - 5) For cash payments, the funds must be directly transferred to the account of the invested enterprise or the equity transferor, without passing through any intermediary accounts; for non-cash payments, the ownership of the assets must be directly transferred to the account of the invested enterprise or the equity transferor, under no circumstances may the assets be held by another party on behalf or be held temporarily.
- The creditable tax payable refers to the corporate income tax payable on dividends, interest, royalties, and other income derived by the foreign investor from the profit-distributing enterprise.
- Tax treatment upon withdrawal of investment:
 - 1) Withdrawal of the investment after 5 years: The profits corresponding to the withdrawn investment shall be declared to the tax authority for payment of deferred taxes within 7 days, and the carried-over balance of the tax credit for re-investment may be used to offset the payable tax;
 - 2) Withdrawal of the investment before 5 years: In addition to paying the deferred taxes, the credit amount shall be reduced in proportion. If the used amount exceeds the reduced amount, the difference shall be paid within 7 days;
 - 3) Withdrawal involving both eligible and non-eligible investments: The withdrawal shall be deemed to

first apply to investments that have enjoyed the preferential policy.

- When a foreign investor applies for enjoying this policy or withdraws the investment, it shall submit relevant documents to the local competent commerce department through the invested enterprise.
- Foreign investors with remaining tax credit balances under this policy as of December 31, 2028 may continue to utilize such credits until fully utilized.

Qualifying investments made from January 1, 2025 to the date of issuance of this Announcement may apply for retroactive enjoyment of the policy.

Provisions on the Reporting of Tax-Related Information by Internet Platform Enterprises

Issued by: State Council, State Taxation Administration
Issue No.: State Council Decree No. 810, Announcements No. 15 and No. 16 of 2025 of the State Taxation Administration
Issue Date: June 23, 2025; June 26, 2025
Effective Date: June 23, 2025; June 26, 2025; October 1, 2025
Links: https://www.gov.cn/zhengce/content/202506/content_7029052.htm
<https://fgk.chinatax.gov.cn/zcfgk/c100012/c5241477/content.html>
<https://fgk.chinatax.gov.cn/zcfgk/c100012/c5241472/content.html>

The State Council issued the Provisions on the Reporting of Tax-Related Information by Internet Platform Enterprises, requiring internet platform enterprises to submit tax-related information such as identity and income information of operators and practitioners on such platforms to their competent tax authorities. In Conjunction, the State Taxation Administration has issued two supporting announcements (No. 15 and No. 16 of 2025), to specifying the operational requirements for the implementation of the provisions. The main contents are as follows:

- Reporting entities:
 - 1) It is clarified that both domestic and foreign internet platform enterprises are required to report tax-related information;
 - 2) For domestic internet platforms with multiple operating entities, the enterprise that has obtained a value-added telecommunications business license or completed the Internet information Services (ICP) filings shall submit the information; if none of the entities holds such a license or has completed the ICP filing, the enterprise providing profit-making services such as online business premises shall submit the information;
 - 3) For foreign internet platform enterprises with domestic operating entities, the domestic enterprise that has obtained a value-added telecommunications business license shall submit the information; if the operating entity does not have the required license, the domestic operating entity providing services for it shall submit the information; if no domestic operating entity is established, the designated domestic agent shall submit the information.
- Contents and time of submission:
 - 1) Submission of basic information: Within 30 days from the start of internet business operations or

changes in basic information (the first submission period is from July 1 to 30, 2025), information such as platform domain names, business types, unified social credit codes and names of operating entities shall be submitted.

- 2) Submission of tax-related information: Within the month following the end of each quarter (the first submission period is from October 1 to 31, 2025), the identity information and income information of operators and employees on the platform (including online streamers and partners) for the previous quarter shall be submitted.
- Submission methods: Electronic Tax Bureau, direct data-interface connection, or other channels provided by tax authorities.
 - When internet platform enterprises handle withholding declarations or proxy declarations for practitioners on the platform, the following tax policies shall apply, and tax-related information already submitted shall not be submitted repeatedly.
 - 1) Value-Added Tax (VAT): Service income obtained by practitioners (natural persons) from the platform may enjoy the preferential policy of VAT exemption for small-scale taxpayers with monthly sales of less than RMB100,000, breaking the original threshold limit (RMB500per day, RMB 20,000per month). The portion exceeding RMB 100,000 is declared by the platform on behalf of the individual (not withholding) and taxed at 1%.
 - 2) Individual Income Tax: Calculated and pre-withheld using the cumulative withholding method, shifting from the previous three-tier progressive withholding rates of 20%-40% to a seven-tier progressive withholding rates of 3%-45%.
 - 3) Corporate Income Tax: Platform enterprises may use individual income tax returns, VAT returns, and tax payment certificates as deduction vouchers to deduct labor remuneration expenses before tax.

Legal

Anti-Unfair Competition Law of the People's Republic of China

Issued by: Standing Committee of the National People's Congress
Release Date: June 27, 2025
Effective Date: October 15, 2025
Links: http://www.npc.gov.cn/npc/c2/c30834/202506/t20250627_446247.html

This revision closely aligns with the current market development, directly addresses existing competition irregularities, aiming to create a fair competition market environment. The revised law has expanded from the original 33 articles to 41, with the main amendments as follows:

- Refining provisions on unfair competition acts
 - 1) Clarifying regulations on confusion acts: Acts such as unauthorized use of another party's influential new media accounts, using another party's registered trademark as a business trade name, and setting another party's identifiers as search keywords are recognized as confusion acts. Assisting in others to implement confusion acts is prohibited.
 - 2) Specifying traditional unfair competition acts: add provisions prohibiting bribery acceptance by

entities and individuals; expand the scope of misleading conduct to cover not only consumers but also other business operators, regulating fake transactions and credit manipulation; prohibit arbitrary changes to prize-based sales information; ban instigating others to engage in defamation, broadening the scope of commercial disparagement targets.

- 3) Regulating online unfair competition acts: prohibit the use of data and algorithms to conduct unfair competition, ban the unlawful acquisition or misuse of third-party data; forbid abusing platform rules to facilitate fake transactions and other deceptive practices; require platform operators to clearly define fair competition rules within the platform, establish complaint reporting and dispute resolution mechanisms for unfair competition, and promptly take necessary legal measures to stop unfair competition by platform merchants.
 - 4) Addressing delayed payments: prohibit large enterprises from abusing their dominant position to delay payments to small-sized and medium-sized enterprises; authorize supervisory and inspection departments at the provincial level or above to investigate and penalize violations in accordance with the law.
- Strengthening supervision and liability: introduce a new interview mechanism for regulatory intervention, clarify the calculation method of civil compensation, and specify liability for selling illegal goods and legal consequences for bribe recipients; in the meanwhile, adhere to the principles of proportional penalties and combining punishment with education; expand regulatory measures and rationally adjusts penalty amounts for fairness.

The Ministry of Foreign Affairs will Pilot the Issuance of Electronic Apostilles

Issued by: Ministry of Foreign Affairs

Release Date: June 17, 2025

Links: https://www.mfa.gov.cn/web/wjdt_674879/sjxw_674887/202506/t20250617_11651350.shtml

The Ministry of Foreign Affairs, as the competent authority designated by China for issuing apostilles under the Convention Abolishing the Requirement of Legalization for Foreign Public Documents, will begin issuing electronic apostilles for public documents domestically issued in China.

- As a pilot initiative, electronic apostilles will be issued for Certificates of Origin issued by the China Council for the Promotion of International Trade (CCPIT) starting June 18, 2025.
- The electronic apostilles issued by China hold the same legal effect as physical apostilles. Electronic apostilles can be verified online via the Ministry of Foreign Affairs' "Consular Authentication/Apostille Online Verification System" (<https://consular.mfa.gov.cn/VERIFY>).

Pilot Program for Domestic Investment Reporting by Foreign-Invested Enterprises (FIEs)

Issued by: Ministry of Commerce
 Issue No.: Ministry of Commerce Announcement No. 12 of 2025
 Release Date: March 1, 2025
 Effective date: July 1, 2025
 Links: https://www.mofcom.gov.cn/zwgk/zcfb/art/2025/art_9488f373a0d048b3a78b74477073efd8.html
<https://m.mofcom.gov.cn/article/zcfb/zcblgg/201912/20191202927046.shtml>

According to the Measures on Foreign Investment Information Reporting, the Ministry of Commerce (MOFCOM) is piloting the implementation of a domestic investment information reporting system for foreign-invested enterprises (FIEs). The main contents are as follows:

- FIEs shall, when making re-investments within China to establish enterprises, increasing capital in invested enterprises, or purchasing equity from other investors (excluding multi-tiered investments), submit initial and amendment reports through the enterprise registration system and file investment information with the competent commerce authorities.
- This Pilot Program adds domestic re-investment establishment and amendment reporting obligations to the existing reporting requirements for FIEs, which include initial reports, amendment reports, cancellation reports, and annual reports.
- The domestic investment information reporting for FIEs will be steadily advanced through a pilot approach, with the first batch of pilot regions being Jiangsu, Shanghai, Tianjin, Liaoning, Hebei, Hunan, Shaanxi, and Chongqing.

Accounting

Notice of the Ministry of Finance on Relevant Financial Treatment Issues after the Implementation of the Company Law and the Foreign Investment Law

Issued by: Ministry of Finance of the People's Republic of China
 Issue No.: Caizi [2025] No. 101
 Issue Date: June 9, 2025
 Links: https://zgsls.mof.gov.cn/zhengcefabu/202506/t20250625_3966569.htm

Regarding the financial treatment pertaining to the Company Law (effective July 1, 2024) and the Foreign Investment Law (effective January 1, 2020), the following notice is issued:

- On the premise that the Company Law permits the use of capital reserve to offset losses, financial rules are established for the scope, timing, basis, and procedures of such offset, as follows:
 - 1) Scope: Capital reserves eligible for loss offsetting are limited to the following two categories:
 - a) Capital contributions made in cash or in the form of non-monetary assets that could be monetary valued and legally transferred, including physical assets, intellectual property, land use rights, equity interests, and creditor's rights;

- b) Capital injections through debt assumption or debt exemption, or through donations made in cash, physical assets, intellectual property rights, or land-use rights.

However, capital reserves that are exclusively designated for specific shareholders or restricted to particular purposes require prior consent from the rights holder(s). Capital reserves subject to contingent conditions that may alter their value may only be utilized for loss offsetting after the amount is finalized.

- 2) Timing and basis: When utilizing capital reserves to offset losses, the company must rely on its audited financial statements for the preceding fiscal year (no earlier than 2024), and the offset shall be capped at bringing the ending balance of retained earnings from a negative amount to zero.
 - 3) Procedures: A board resolution shall be formulated and submitted to the shareholders' meeting for approval. No offsetting is permitted if the shareholders' meeting rejects the proposal. Upon approval, the company must notify the creditors or issue a public announcement within 30 days after the shareholders' resolution; the amount of capital reserve used for loss offsetting shall be separately disclosed under retained earnings in the financial statements. Listed companies may disclose such information in the latest financial statements (interim or annual reports).
- Financial requirements for capital contributions in the form of non-monetary assets:
 - 1) It is clarified that "for accepting shareholders' capital contributions in the form of non-monetary assets such as physical assets, intellectual property rights, land-use rights, equity interests, and creditors' rights that can be monetarily valued and legally transferred, asset valuation shall be conducted in accordance with the relevant provisions of Caiqi [2009] No. 46. Furthermore, the relevant internal decision-making procedures must be followed as prescribed for establishment, capital increase, merger, division, or similar transactions.
 - 2) It is clarified that "for non-monetary assets invested by shareholders, the company shall, in light of the assets' characteristics, fully consider various factors that may affect the realization of the rights in such assets, and obtain legal opinions when necessary".
 - Treatment of the remaining balances of the reserve fund, enterprise development fund, and employee bonus and welfare fund previously appropriated by the foreign-invested enterprise:
 - 1) Foreign-invested enterprises shall switch from accruing reserve funds and enterprise development funds to accruing statutory reserves and discretionary reserves; the balance of the previous reserve funds shall be converted into statutory reserves, and the balance of the enterprise development funds shall be converted into discretionary reserves.
 - 2) The staff bonus and welfare funds accrued by foreign-invested enterprises shall be used in accordance with the purposes, conditions, and procedures determined at the time of accrual; the balance at the time of liquidation shall be merged into reserves, among which the accrued balance of insurance and welfare for Chinese employees shall be merged into employee welfare expense payables.
 - 3) It is clarified that, effective from January 1, 2025, foreign-invested enterprises shall cease to accrue reserve funds, enterprise development funds, or staff bonus and welfare funds. Those accrued on or after January 1, 2025 shall be reversed.

Recent Hot Topics

- Can the profit distribution amount of a limited partnership exceed the retained earnings on the books?
- Recently, many domestic natural persons have received notices to file tax returns for overseas income obtained in the last three years. How should these individuals respond?
- Since 2020, foreign-invested enterprises (FIEs) are no longer required to file their total investment amount for recordation. Can FIEs still utilize the "registered capital vs. total investment" (RCTI) model for foreign loan borrowing? How can FIEs prove their total investment amount?

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