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China – Circulars issued on the tax treatment of QFIs and RQFIs, and investments undertaken through the Shanghai Hong Kong Stock Connect

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Operational Tax News. China Update

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Circulars issued on the tax treatment of QFIs and RQFIs, and investments undertaken through the Shanghai Hong Kong Stock Connect

There is good news for investors who invest in shares listed on Chinese stock markets, and who expect to derive gains on or after November 17, 2014. The Ministry of Finance (MOF), State Administration of Taxation and China Securities Regulatory Commission have jointly issued two circulars **Caishui (2014) No. 81** and **Caishui (2014) No. 79**.

The first circular (No. 81) stipulates the tax implications for foreign investors who trade in A-shares listed on the Shanghai Stock Exchange, as well as tax implications for Mainland investors who invest in shares listed on the Hong Kong Stock Exchange, via the Shanghai Hong Kong Stock Connect.

The second circular (No. 79) stipulates the income tax implications for QFIs and RQFIs on the income derived from the transfers of their Mainland Chinese investments which are in the nature of rights and interests in shares.

The temporary tax exemptions provided in both circulars only apply on gains derived on or after November 17, 2014. Insofar as QFIs and RQFIs are concerned, gains derived before that date remain subject to tax at the rate of 10%, subject to exemption under applicable tax treaties.

Unfortunately, these circulars have not provided clarification on some outstanding issues such as the taxation of non-resident investors on capital gains realised prior to November 17, 2014, and the procedure to be followed by qualifying investors wishing to claim the benefit of tax treaties.

Please refer to the **Tax Alert issued by Deloitte China** and unofficial translations of Circular No. 81 and No. 79 for more details on this issue.

We will keep you updated in case of any new developments.

If you have any queries regarding the above, please do not hesitate to contact us.

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