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Recent developments in international taxation: the People's Republic of China

Overview

From the beginning of 2024 to the first half of 2025, The People's Republic of China (PRC) has undergone a series of significant changes in the field of taxation.

Domestically, the process of tax legalisation has accelerated across legislation, administration and the judiciary. In terms of tax legislation, China has enacted several important laws and regulations, including the VAT Law and the Tariff Law, which have either been passed or come into force. With respect to tax administration, law enforcement has been further strengthened through the use of digital tools to combat cross-border tax evasion. In the judicial sphere, the handling of tax-related cases has become more standardised and professionalised, marked by new judicial interpretations of tax crimes and the establishment of specialised tax courts.

Internationally, China has actively enhanced international tax cooperation and expanded its tax treaty network. These efforts aim to provide more robust cross-border tax support for the global expansion of Chinese enterprises.

The domestic dimension

Tax legislation

This year, two major tax laws—the Tariff Law and the VAT Law—were enacted, bringing the total number of legislated tax categories in China to 14 out of 18. This marks a significant step forward in the process of tax legalisation.

IMPLEMENTATION OF THE PRC TARIFF LAW

The PRC Tariff Law came into force on 1 December 2024. The law places a strong emphasis on protecting taxpayer rights. For example, it extends the time limit for refund applications to three years and allows taxpayers to initiate administrative reconsideration or litigation without first paying the tariffs or late payment penalties. In addition, it enhances coordination with the Tax Collection and Administration Law and introduces new anti-tax avoidance provisions.

ENACTMENT OF THE PRC VAT LAW

The PRC VAT Law was passed on 25 December 2024, and will come into effect on 1 January 2026. This legislation elevates the previous Provisional Regulations on VAT to formal law and introduces notable changes. These include the removal of the 5 per cent levy rate under the simplified tax calculation method and the repeal of restrictions on input VAT deductions for loan services. The successful implementation of the VAT Law will hinge on the future issuance of supporting regulations and administrative guidance, which are yet to be released.

RELEASE OF DRAFT REVISION OF THE TAX COLLECTION AND ADMINISTRATION LAW

On 28 March 2025, the Draft Revision of the PRC Tax Collection and Administration Law was released for public comment, marking the first major revision in 24 years and drawing

wide attention. The draft introduces significant changes, such as establishing a tax information supervision system and allowing taxpayers to request administrative reconsideration without prepaying taxes, late payment fines, or providing guarantees. However, some provisions have sparked debate – for example, the proposed replacement of the ‘tax late payment surcharge’ (税款滞纳金) with ‘tax late payment interest’ (税款迟纳金), which critics argue is a mere terminological change that does not alter the payment’s legal nature but may allow late payment interest to exceed the principal tax amount. Public consultation has concluded, but it may take two to three years before the revised law is formally enacted and implemented.

Tax administration

STRENGTHENED TAX ENFORCEMENT

Golden Tax Project Phase IV

With the near-completion of the Golden Tax Project Phase IV, tax authorities have enhanced their ability to leverage big data analytics and risk profiling to accurately target key industries, tax categories and potential risk areas. The establishment of a risk early warning system has further reinforced taxpayer oversight and substantially increased audit efficiency.

Increased oversight of unreported overseas individual income

On 25 and 26 March 2025, the tax authorities of Hubei, Shandong, Shanghai and Zhejiang announced on their official websites that they would enhance enforcement efforts against individuals who did not fulfil their offshore income tax obligations within the prescribed period. Leveraging financial account information obtained through the Common Reporting Standard (CRS), the State Taxation Administration (STA) has begun identifying Chinese tax residents with offshore accounts who have not reported relevant income. Historically, enforcement against unreported offshore personal income was limited due to a lack of access to such data, resulting in widespread non-compliance. The recent announcements mark a clear shift toward stricter enforcement, especially for high-net-worth individuals with offshore financial assets.

ADVANCE RULINGS ON TAX AFFAIRS

Following Shanghai’s introduction of advance rulings on tax affairs in December 2023, other tax authorities have also implemented similar initiatives. Up to now, tax authorities in Beijing, Guangzhou, Shenzhen, Hainan and Chongqing have successively introduced the advance rulings on tax affairs and published relevant cases. Under this system, enterprises can apply to the competent tax authority for written clarifications on anticipated complex tax issues. This process enhances the certainty of tax law application and helps prevent potential disputes.

STRICT CLEANUP OF ILLEGAL TAX INCENTIVES

China has officially prohibited local governments from using fiscal rebates and similar tax incentives to attract investment. Following the PRC State Council’s issuance of the Regulation on Fair Competition Review in June 2024, local authorities are now subject to stricter oversight, with comprehensive measures to eliminate such ‘fiscal return’ policies. This includes retroactive reviews of tax incentives and crackdowns on tax planning strategies that abuse preferential tax policies for financial gain.

The tax judiciary

SPECIALISED TAX COURTS

On 23 February 2024, Shanghai set up the country's first specialised tax court within the Shanghai Railway Transportation Court, which centralises jurisdiction over tax administrative cases arising in Shanghai. Earlier, in late 2023, a specialised tax collegial panel was established at the Xiamen Siming Court. These two institutions serve as pilot models in China's tax judicial reform, enhancing judicial efficiency and specialisation, and providing replicable frameworks for other regions.

NEW JUDICIAL INTERPRETATION ON TAX-RELATED CRIMES

In March 2024, the PRC Supreme People's Court and Supreme People's Procuratorate jointly issued a Judicial Interpretation on Tax-Related Crimes, which clarifies sentencing standards and recognition criteria for various tax offences. This provides clearer legal guidance for judicial practice in tax crime cases.

The international dimension

Outbound investment and cross-border tax guidance

Since 2024, Chinese enterprises have significantly increased their overseas investments and are placing greater focus on cross-border tax issues such as investment structures and local tax regulations in host jurisdictions. In response, the STA launched the Tax Express (税路通) service to support the full life cycle of outbound investment, offering tools such as tax treaties and country-specific tax guides to help enterprises manage cross-border tax risks.

Expansion of China's tax treaty network

In 2024, new double tax agreements (DTAs) with Argentina (effective 26 November 2024), Gabon (13 October 2024), and Austria (19 November 2024) came into force, applying to income earned from 1 January 2025 onwards. In 2025, the treaty between China and Italy entered into force on 19 February, and will apply to income earned from 1 January 2026.

Pillar Two progress

China's implementation of Pillar Two is currently at the consultation stage, with no definitive legislative timeline announced.

Multilateral cooperation and engagement

China continues to play an active role in international tax cooperation:

- at the 16th BRICS Summit, the Kazan Declaration reaffirmed support for the United Nations Framework Convention on International Tax Cooperation, emphasised tax transparency, and endorsed discussions on taxing high net worth individuals; and
- the Fifth Belt and Road Initiative Tax Administration Cooperation Forum (BRITACOF) was held in Hong Kong on 24 September 2024, with representatives from nearly 50 countries and regions. Discussions focused on enhancing tax certainty, improving the tax environment, and strengthening administrative capacity. The forum concluded with the release of the 2024 *Annual Report of the Belt and Road Initiative Tax Administration Cooperation Mechanism*.