



# Focus session - China

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# Today's presenters



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01

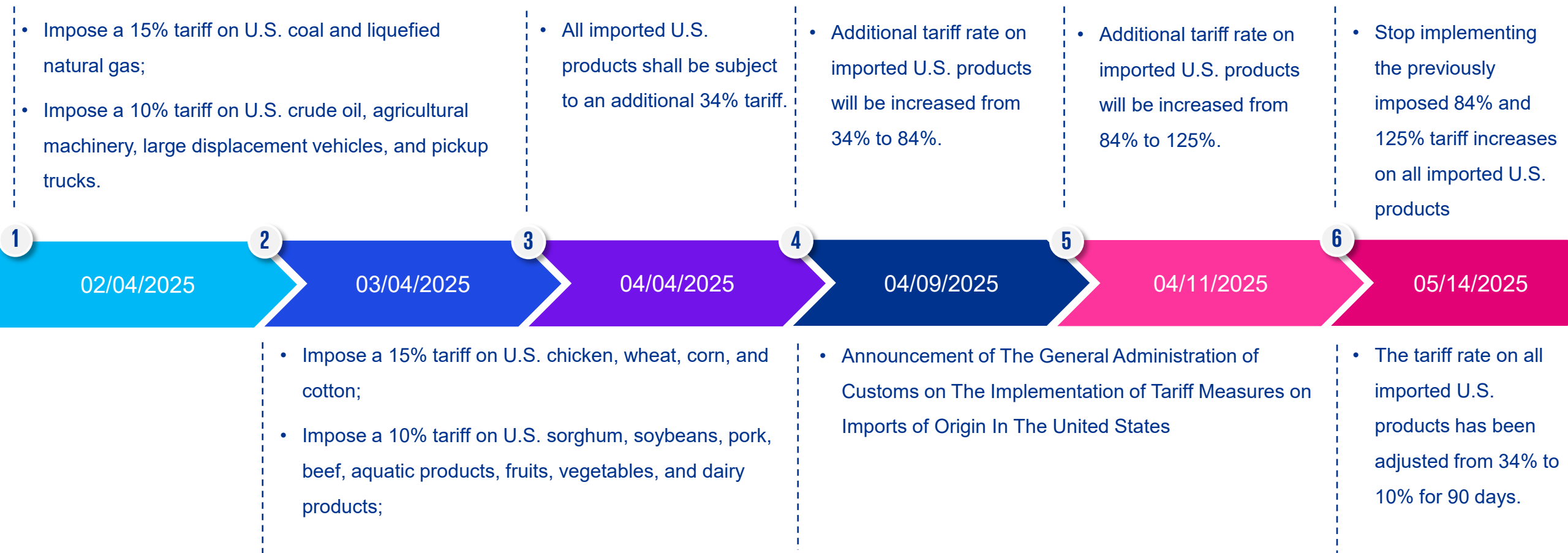
# Supply chain



# Chinese government's countermeasures



# Additional tariffs against US goods



# Export control

## Unreliable entities list

Starting from August 12, 2025, the prohibition against 17 US entities will be suspended for 90 days.



Starting from August 12, 2025, the ban on the export of dual-use items to 28 US entities will be suspended for 90 days, during which export licenses can be applied for.

## Exports control list

# Export controls & trade remedy measures

## Export control of dual-use items

Publication time	Policy Introduction	Effective Time
2024/12/3	<ul style="list-style-type: none"> <li>Prohibit the export of dual-use items to US military users or military purposes. In principle, the export of dual-use items related to gallium, germanium, antimony, and superhard materials to U.S. is not allowed.</li> <li>Implement stricter end-user and end-use inspections for the export of dual-use graphite items to U.S.</li> </ul>	2024/12/3
2025/2/4	<ul style="list-style-type: none"> <li>Implement Export Controls on Tungsten, Tellurium, Bismuth, Molybdenum, and Indium Related Items .</li> </ul>	2025/2/4
2025/4/4	<ul style="list-style-type: none"> <li>Implement export controls on some medium and heavy rare earth related items.</li> </ul>	2025/4/4

## Anti dumping and anti circumvention investigations

Publication time	Policy Introduction	Effective Time
2025/3/28	<ul style="list-style-type: none"> <li>Initiate an anti circumvention investigation for imported fiber-related .</li> </ul>	2025/3/28
2025/4/4	<ul style="list-style-type: none"> <li>Initiation of an Anti-dumping Investigation into Certain Imported Medical CT X-Ray Tube Assemblies and Tube Inserts Originating in U.S. and India</li> </ul>	2025/4/4
2025/5/18	<ul style="list-style-type: none"> <li>Final Determination on the Anti-dumping Investigation into Imports of Polyformaldehyde Copolymer Originating in the United States, the European Union, Taiwan Region and Japan</li> </ul>	2025/5/19

# How companies are reacting?



## Manufacturing companies

- **Restructure transfer pricing policy to reduce import price**
- **Establish overseas manufacturing plant to shift CoO**

ASEAN countries (leverage ASEAN-China FTA)

Mexico (leverage USMCA FTA)

US (leverage IRA and other incentive policies)

- **Await final reciprocal rates to make final determination**



## Trading companies

- **Seek for non-China source to reduce applicable duty rate**
- **Change incoterms with vendor to DDP**
- **Establish overseas entities to reduce CIT rate to counter uprising duty rate**

Cooperate with US Customer / self-initiate FSFE implementation

Negotiate with customer to share tariff burden

Streamline global operation to reduce operational expense

Implement tariff engineering to reduce duty rate

Unbundle costs to reduce import price

Improve recordkeeping and declaration information management to avoid severe consequences

Seek to explore other market

02

# Indirect tax



# Update on VAT law and consumption tax considerations



## VAT law

- Effective from 1 January 2026
- Implementation Regulation to be released late October / early November 2025
- 10+ Detail Rules to be issued on Sector (Financial Services) and Theme (Export VAT) basis



## Consumption tax

- Tax point shift **likely** to start from high end watches and jewellery, followed by Automotive
- From 2026 onwards, more CT categories to be reformed
- Study on high sugar content beverages



## Revenue driven indirect tax audit

- SAT's Goods and Services Tax Department was given a KPI for additional collection in 2025
- Asset management sectors' input VAT/ Inter-group lending and borrowing VAT exemption/ Petrochemical related CT/ Gaming sectors' VAT preferential policy are being challenged
- It is anticipated that more shall come in 2026

03

# M&A



# Global and China M&A market review

Over the past year, global M&A activities have remained under pressure. That said, we continue to observe strong interest in strategic sectors such as:



Energy transition and decarbonization



Healthcare, consumer and retail, and advanced manufacturing



Technology, digital infrastructure, and AI



Long-term investments by sovereign funds and private equity

In China, the overall M&A landscape shows several distinctive characteristics:



- 01 Cautious expansionary deals
- 02 Increased divestitures of regional business and non-core assets
- 03 Continued government-supported consolidation in strategic industries
- 04 Selective outbound acquisitions focused on technology, brands, and resources

**Against this backdrop, tax considerations have become increasingly central to the feasibility, timing, and execution of M&A projects.**

# The critical role of PRC tax in M&A transactions

1

## Indirect transfer rules

- Determination of taxability
- Rationalization of tax calculation
- Possibility of tax refund

2

## Special tax treatment (Tax deferral)

- Reasonable business purpose assessment
- Lock-up requirement on shareholding

3

## Holding structures and treaty access

- Updated tax treatment on QFLP
- Treaty eligibility for exit transactions

4

## VAT and Stamp tax impact

- VAT on share transfer considerations
- Stamp duty payment administration

5

## Post-Deal integration and profit repatriation

- Substainability of tax preferential treatment
- Challenges on Beneficial Ownership assessment for dividends

# Tax considerations in Chinese outbound investments

Chinese enterprises continue to pursue outbound acquisitions and joint ventures in sectors such as energy, minerals, high-end manufacturing, and technology. Several trends are shaping the landscape:

- 1** ..... **Diversified investment destinations, including Southeast Asia, the Middle East, Africa, and Europe**
- 2** ..... **A shift from resource-driven deals toward technology, brands, and supply chain localization**
- 3** ..... **Increasing regulatory scrutiny in host countries, including national security reviews and anti-avoidance measures**

## Key tax challenges faced by Chinese outbound investors include:



Optimizing the use of tax treaties to reduce withholding taxes



Building defensible substance in intermediate entities to avoid challenges



Anticipating the potential impact of global minimum tax rules under Pillar Two over the medium term

04

# Direct tax



# Most asked about income tax issues



## Adoption of Pillar Two rules in China

- Signal sent by STA survey on Pillar Two impact
- Impact of Side-by-side system and UTPR safe harbor
- Jurisdictional blending



## Profit extraction

- Pre-tax extraction
  - Domestic related party transfer pricing under scrutiny (same CIT rate safe harbor may not be fully respected in non-TP audit)
- Beneficial ownership status for dividend repatriation
  - Elevated substance requirement
  - Tracking of cashflow movement beyond simple further dividend distribution



## Tax incentives

- Contemplated enhancement of current HNTE criteria
  - Invention IP vs. utility patent & software registration
  - R&D expenses for HNTE vs. bonus deduction
- Increasingly challenging for foreign MNEs to retain HNTE status due to lack of core IP in China; revisit royalty regime & exit strategy

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