

GMS Flash Alert

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People's Republic of China – Enhancements to Use of, Procedures for Tax Residency Certificates

A recent Circular issued in the People's Republic of China ("PRC" or "China") concerning the Tax Residency Certificate ("TRC") application process aims to provide more comprehensive safeguards and conveniences for Chinese residents (companies and individuals) engaging in cross-border activities.

The State Taxation Administration released the Announcement on relevant matters relating to the PRC Tax Residency Certificate (hereinafter referred to as "Announcement [2025] No. 4") in January 2025. The Announcement took effect on 1 April 2025.

WHY THIS MATTERS

The Announcement has made several enhancements regarding Tax Residency Certificate ("TRC") application procedures and the issuance of TRCs. The enhancements concern eligibility for TRCs, situations for which the application of TRCs may be appropriate, and what is contained in the TRC, amongst other things. This should bring greater clarity and utility to taxpayers who apply for and rely on TRCs.

Context

The TRC is primarily used to support individuals or companies for claiming benefits under an income tax treaty (e.g., dividends received by PRC residents from the other contracting state may apply for preferential tax rates, typically 10 percent or 5 percent), or as a 'proof-providing' document that can support individuals engaging in outbound investment or when opening an overseas bank account.

It is important to note that the TRC itself does not create a universal exemption from taxes.

Key Enhancements

Extend Eligibility for TRC Application

Qualified PRC residents who are self-employed business owners and sole proprietors can apply for the TRC at the local tax bureau where their business operations are situated.

Broaden Purpose of Certification

Applicants can apply the TRC not only to claim treaty benefits but also in some circumstances that provide a degree of convenience for resident taxpayers in fulfilling various requirements, such as opening an overseas bank account, engaging in overseas business activities, etc.

Update Content of TRC

- Add resident taxpayer's identification number;
- Remove signature of the responsible personnel of the competent tax authority;
- Include remarks specifying additional needs of applicants (e.g., details of partnerships, sole proprietorships, etc.).

Application Process Available Electronically

Making applications online is now possible.

KPMG INSIGHTS

To use the TRC effectively, we suggest taxpayers focus on the following key areas:

- **Determining tax residency status:** Taxpayers should assess tax residency status in each of the tax jurisdictions according to existing domestic legislation and bilateral tax treaties, in order to determine whether they are eligible for claiming treaty benefits. In regard to complex cross-border arrangements, such as partnerships or dual/multiple tax residency status, it is recommended that taxpayers seek professional advice to foster compliance.
- **Claiming treaty benefits:** Which treaty benefit the taxpayer intends to claim under a specific treaty article needs to be ascertained. Income received by PRC tax residents from the other contracting state may not qualify for treaty benefits. Accordingly, taxpayers should analyse the relevant conditions in a specific treaty article (e.g., beneficial ownership criteria in the Dividends, Interests or Royalties Article of an income tax treaty) and assess eligibility before lodging an application for a TRC .
- **Others:** In circumstances such as opening an overseas bank account or making outbound investments where a TRC may be required, taxpayers should ascertain the relevant requirements with overseas institutions or authorities prior to taking that investment or account-opening decision, and apply for a TRC only if it is necessary.

KPMG China is monitoring developments around this matter closely. We will endeavour to update readers of *GMS Flash Alert* on any important developments as and when they occur.

Contact us

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