PRC income tax on distribution of dividends to WFOE investor

Q: I would like to know the PRC Tax implication on the following: a BVI company invested RMB10M in a WOFE. Subsequently, it sells the WOFE to a PRC company at RMB15M. What are the tax implication for the BVI Company on this transaction? Thanks

A: The BVI is not a PRC tax treaty jurisdiction. The BVI Company is liable to a 10% income tax on gains arising from the alienation of equity interests in the WFOE. The gain is computed by reference to the difference between the gross amount and the cost of investment. The PRC income tax liability could be reduced or exempted in full if the BVI company is a tax resident of the Hong Kong Special Administrative Region. According to the Double Tax Arrangement signed between the government of Hong Kong and the Mainland government, the application of the tax reduction or exemption to the BVI company depends on whether the WFOE owns any PRC landed property and the duration of the ownership. For more information, see www.china-tax.net