Han Kun Newsletter

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Legal Updates

1. Tax Compliance for Chinese Individuals Investing Overseas (Part I): Key Tax Considerations for Three Types of Investors

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Introduction

Since 2026, China has witnessed significant developments in the regulatory framework governing outbound investment by individuals. For Chinese high-net-worth individuals ("**HNWIs**"), cross-border investment has entered a new era in which tax compliance has become an integral component of wealth planning and global asset allocation.

Several recent developments illustrate this trend.

First, at the legislative level, the ***Regulations of the State Council on Outbound Investment*** **(《国务院关于对外投资的规定》, State Council Order No. 837)** came into effect on 1 July 2026. As China's first administrative regulation specifically governing outbound investment, the Regulations expressly include PRC individual residents within the regulatory framework, marking the first time that outbound investment activities conducted by individuals have been systematically incorporated into a unified national regulatory regime.

Second, at the regulatory level, in May 2026, with the approval of the State Council, eight government authorities – including the China Securities Regulatory Commission ("**CSRC**") – jointly issued the ***Implementation Plan for the Comprehensive Rectification of Illegal Cross-border Securities, Futures and Fund Business Activities (《综合整治非法跨境证券期货基金经营活动实施方案》)***. The Plan further strengthens regulatory oversight over cross-border capital flows and offshore investment channels, reinforcing the policy direction that Chinese investors should conduct overseas securities and financial investments through compliant and legitimate channels.

Third, the ***CRS 2.0 regime*** is being rolled out from 2026 in major offshore jurisdictions including the British Virgin Islands and the Cayman Islands, and is expected to extend to Singapore, Hong Kong SAR and other jurisdictions within the next two to three years. Compared with CRS 1.0, the new round of information exchange significantly expands account coverage and deepens beneficial-owner look-through, and compliant reporting of offshore income is fast becoming a routine obligation for resident individuals Against this backdrop, the era in which offshore assets were perceived as being beyond the visibility of tax authorities has effectively come to an end. For Chinese HNWIs, the principal challenge of cross-border tax planning is no longer simply **how to establish an offshore structure**, but increasingly **how to explain that structure, substantiate the underlying tax treatment, and maintain ongoing compliance with tax reporting and payment obligations**.

To assist individual investors in navigating this evolving compliance landscape, we are launching a series of articles on Individual Outbound Investment Tax Compliance. The series focuses on three of the most

[1] Lianjie Huang has contributions to this article.

representative categories of Chinese individual investors:

- **entrepreneurs** who hold domestic and offshore assets through offshore holding structures;
- **multinational executives** who work across jurisdictions and receive remuneration from multiple countries; and
- **globally mobile individuals** who have relocated overseas while maintaining Chinese nationality and significant economic connections with China.

Building on these representative scenarios, the series will examine a number of key tax compliance topics, including:

- Part I – **Key Tax Considerations for Three Types of Investors**
- Part II – **CRS 2.0 and Beneficial Ownership Registers for Offshore Companies**
- Part III – **Resolving Dual Tax Residency**
- Part IV – **Tax Compliance for Red-chip and Other Offshore Structures**
- Part V – **Tax Challenges for Family Trusts and Family Offices**

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As the opening article of this series, this publication provides an overview of the principal tax compliance issues that may arise for the three representative categories of Chinese HNWIs in connection with outbound investment and global asset allocation. Subsequent articles will examine each of these topics in greater detail.

This article is not intended to provide definitive conclusions as to how the hypothetical individuals described below should report their income or determine their tax liabilities. In practice, the tax treatment of cross-border investment structures depends on numerous factors, including the tax residency status of family members, the ownership and control of investment structures, the legal characterisation of various types of income, and the specific facts and circumstances of each case.

Instead, the purpose of this article is to assist readers in identifying potential tax compliance obligations and recognising areas that warrant particular attention, thereby facilitating more informed and proactive cross-border tax risk management.

Mr. A – A Chinese Entrepreneur with an Offshore Holding Structure

Background

- Mr. A is a successful entrepreneur.
- He and his family are Chinese nationals holding PRC passports. Their household registration (hukou) remains in Beijing, and they do not possess citizenship or permanent residency in any other jurisdiction. The family resides in Beijing on a long-term basis, although Mr. A travels overseas

regularly for business purposes.

- Several years ago, Mr. A established an offshore family trust as settlor, with his family members designated as beneficiaries. The trust holds part of the equity interests in a pre-IPO company founded by Mr. A. In addition, the trust owns a British Virgin Islands ("**BVI**") company through which a diversified portfolio of offshore financial investments is maintained.
- Separately, Mr. A personally owns another BVI company that has completed the foreign exchange registration required under SAFE Circular 37.

Mr. A's wealth is highly concentrated in corporate equity and is held through a combination of offshore companies and trust structures. His objectives include business expansion, capital operations and intergenerational wealth succession. He therefore represents a typical example of a Chinese entrepreneur who owns both domestic and offshore assets through sophisticated offshore holding structures.

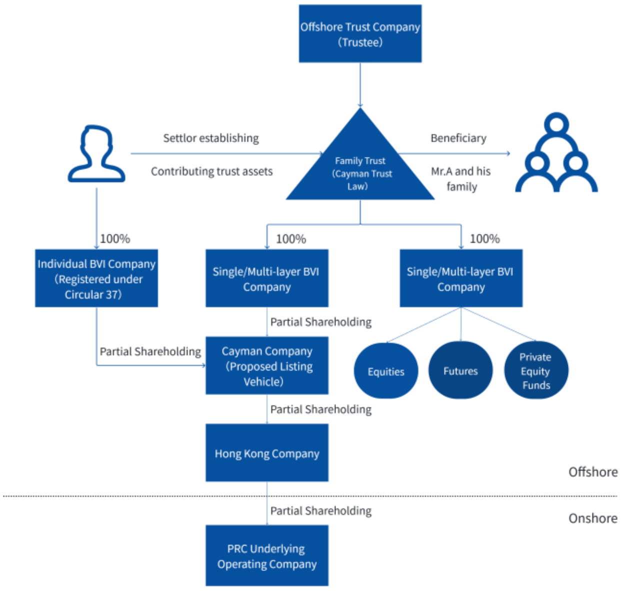

Figure 1: Schematic Diagram of Mr.A's Relevant Rights and Interests

Depending on the specific facts and circumstances, Mr. A may encounter a number of significant tax compliance issues, including the following.

I. Taxation of Dividends Distributed by Offshore Companies

Where Mr. A's personally owned BVI company distributes dividends to him, and Mr. A is regarded as a PRC tax resident under the Individual Income Tax Law, such dividends may constitute overseas investment income subject to PRC individual income tax ("**IIT**"). Under the current PRC tax rules, dividend income derived from offshore companies is generally subject to IIT at a rate of **20%**.

II. Controlled Foreign Corporation (CFC) Rules and Deemed Dividend Taxation

Instead of distributing profits, Mr. A's BVI company may retain earnings generated from dividends received from the pre-IPO company, gains realised from equity disposals, or other investment income.

Where such profits are accumulated offshore without reasonable commercial justification, the

Controlled Foreign Corporation ("CFC") rules under the PRC Individual Income Tax Law may become relevant. Under these rules, the undistributed profits of a foreign company may, in certain circumstances, be treated as deemed dividends distributed to a PRC tax resident individual shareholder, notwithstanding that no actual dividend distribution has occurred. If the CFC rules apply, Mr. A may be required to pay PRC IIT at a rate of **20%** on the deemed dividend.

Whether the CFC rules are triggered depends on numerous factors, including the ownership structure, the level of control exercised by PRC tax residents, the commercial rationale for profit retention, and the availability of statutory exemptions.

III. Indirect Transfer of Taxable Chinese Property

If an offshore company within the trust structure disposes of equity interests that directly or indirectly derive their value from the pre-IPO company, the transaction may constitute an **indirect transfer of taxable Chinese property**.

Such transactions may fall within the scope of the ***Announcement of the State Taxation Administration on Certain Enterprise Income Tax Matters Regarding Indirect Transfers of Property by Non-resident Enterprises*** (STA Announcement [2015] No. 7).

Where the relevant conditions are satisfied, the transfer may be subject to PRC enterprise income tax at 10%, notwithstanding that the transaction takes place entirely outside China.

The tax treatment of indirect transfers is highly fact-dependent and generally requires a comprehensive analysis of the transaction structure, commercial purpose and applicable safe harbour provisions.

IV. Offshore Companies Being Treated as PRC Tax Resident Enterprises

Under the PRC Enterprise Income Tax Law, an enterprise established outside China may nevertheless be regarded as a **PRC tax resident enterprise** if its **place of effective management is located** within China.

Accordingly, whether it is Mr. A's personally held BVI company or an offshore company owned through the family trust, there is a possibility that the relevant entity could be regarded as a PRC tax resident enterprise if its strategic, operational and financial management is effectively exercised from China.

If so, the company may become subject to PRC enterprise income tax on its **worldwide income**, including dividends received from the pre-IPO company, gains realised upon future exits, and other offshore investment income. The applicable enterprise income tax rate would generally be **25%**.

Whether the place of effective management is located in China requires a detailed analysis of the company's governance arrangements, decision-making processes and day-to-day management activities.

V. Tax Issues Relating to Offshore Family Trusts

China has not yet enacted a comprehensive trust tax regime. As a result, the PRC tax treatment of offshore family trusts remains subject to considerable uncertainty.

Based on the current PRC tax framework and existing enforcement practice, a number of tax issues may arise, including:

- whether the trust could be disregarded for PRC tax purposes where the settlor retains an excessive degree of control;
- whether tax liabilities may arise before or upon the injection of assets into the trust;
- how income earned by the trust should be attributed for PRC tax purposes;
- whether companies held by the trust could be subject to the PRC CFC rules;
- whether trust distributions could be characterised as taxable investment income or capital gains.

In the absence of specific trust taxation legislation, many of these issues remain legally uncertain and continue to be the subject of academic discussion and practical debate.

Key Takeaways for Mr. A

Mr. A's case illustrates the tax compliance challenges commonly associated with sophisticated offshore holding structures involving multiple layers of companies and trusts.

The issues identified above generally arise from the interaction of PRC domestic tax rules, international tax principles, and the legal regimes of offshore jurisdictions. Whether, and to what extent, these arrangements give rise to actual tax liabilities depends on a detailed analysis of the relevant facts, including tax residency status, control over offshore structures, characterisation of income, and the historical execution of transactions.

Accordingly, the tax consequences of such structures cannot be determined in abstract terms and must be assessed on a case-by-case basis.

Ms. B – A Multinational Executive with Cross-border Employment

Background

- Ms. B is a senior executive of a multinational group responsible for the group's operations in China.
- She and her family are Chinese nationals holding PRC passports and reside in Shanghai on a long-term basis. She does not hold citizenship or permanent residency in any other jurisdiction.
- Ms. B has entered into separate employment agreements with the group's PRC subsidiary and its US parent company. She receives remuneration from both employers and participates in the group's equity incentive programme in the form of restricted stock units ("**RSUs**") granted by the US parent company. Some of the RSUs have already vested and are held in an overseas brokerage account.
- Due to business requirements, Ms. B travels frequently to the United States. In certain years, her cumulative stay in the US exceeds 183 days.

Compared with Mr. A, Ms. B's asset structure is relatively straightforward. Her principal tax challenges arise from cross-border employment, tax residency determination and the coordination of tax obligations across multiple jurisdictions. She therefore represents a typical multinational executive receiving employment income from more than one jurisdiction.

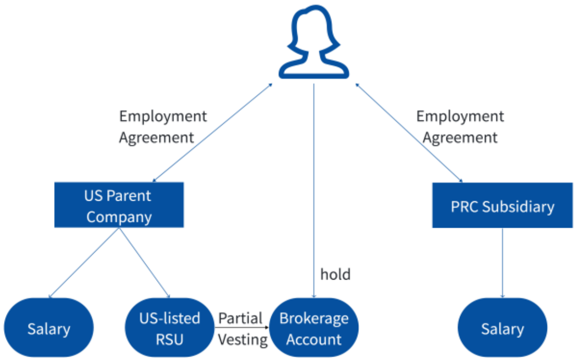

Figure 2: Schematic Diagram of Ms.B's Relevant Rights and Interests

Depending on the particular facts and circumstances, Ms. B may face the following key tax compliance issues.

I. Dual Tax Residency

Although Ms. B's family life and primary employment are centred in Mainland China, her work requires her to spend substantial periods of time in the United States. In certain years, her cumulative presence in the US exceeds 183 days.

Under these circumstances, Ms. B may be regarded as a tax resident by both China and the United States under their respective domestic tax laws. If dual tax residency arises, both jurisdictions may, in principle, assert taxing rights over her worldwide income.

In practice, where appropriate, Ms. B may consider filing **Form 1040NR** together with **Form 8833 (Treaty-Based Return Position Disclosure)** in the United States to claim treaty benefits and take the position that she should be treated as a non-US tax resident under the applicable income tax treaty.

Whether such treaty relief is available depends on the tie-breaker provisions of the relevant tax treaty and an analysis of Ms. B's particular facts and circumstances.

II. Foreign Tax Credit

If Ms. B is regarded as a PRC tax resident under the applicable tax treaty, employment income earned in the United States and taxed there will generally remain subject to PRC individual income tax as part of her worldwide income.

To alleviate double taxation, she may claim a **foreign tax credit** in China for eligible income taxes paid in the United States, subject to the limitations and requirements prescribed under PRC tax law.

In practice, however, claiming a foreign tax credit often involves a number of technical issues, including: the calculation of the foreign tax credit limitation, and the preparation of supporting documentation, such as foreign tax returns and tax payment certificates.

Experience shows that taxpayers frequently fail to obtain the full benefit of available foreign tax credits due to insufficient documentation or procedural deficiencies.

III. Permanent Establishment (PE) Risk

As Ms. B is simultaneously employed by both the PRC subsidiary and the US parent company, her cross-border employment arrangements may also create **permanent establishment ("PE")** risks for either employer.

For example, where Ms. B performs services in China on behalf of the US parent company and has the authority to negotiate or conclude contracts in the name of the US employer – and habitually exercises such authority – the activities may give rise to a **dependent agent permanent establishment** in China under the applicable tax treaty.

Conversely, similar issues may arise where she performs services in the United States on behalf of the PRC employer.

If a PE is established, the relevant enterprise may become subject to corporate income tax in the jurisdiction where the PE is located with respect to the business profits attributable to that PE, determined in accordance with the applicable tax treaty and the arm's length principle. This may also involve complex issues concerning profit attribution, transfer pricing and tax compliance.

Whether a PE exists ultimately depends on the actual functions performed, decision-making authority, contractual arrangements and cost allocation between the two employing entities. Accordingly, PE analysis remains one of the most significant tax compliance issues for multinational executives and their employers.

IV. Two Separate Taxable Events for Equity Incentives

The taxation of equity incentives is characterised by two distinct taxable events.

First, upon the vesting of RSUs, the difference between the fair market value of the shares on the vesting date and any amount paid by the employee is generally treated as employment income and subject to PRC individual income tax. Where the employee is employed by a PRC entity, the PRC employer will generally be responsible for withholding and remitting the relevant tax.

Second, when the shares are subsequently sold, any appreciation in value between the vesting date and the disposal date may constitute taxable capital gains (or property transfer income under PRC tax law). Unlike the vesting stage, no employer withholding obligation generally exists at the time of disposal, and the individual taxpayer is responsible for filing and paying the applicable tax.

In practice, many executives mistakenly assume that once tax has been paid upon vesting, no further tax obligations arise. As a result, gains realised upon the subsequent disposal of the shares are sometimes omitted from tax filings, potentially giving rise to additional tax assessments and late payment surcharges.

V. Historical Exposure in Respect of Offshore Income

Where Ms. B has historically failed to report offshore employment income, income derived from RSUs, dividends received through overseas brokerage accounts, or gains realised from the disposal of overseas securities, she may face historical tax exposure.

With the expansion of international tax information exchange under the CRS, the continued development of China's Golden Tax System Phase IV, and the increasing sophistication of the PRC tax authorities' administration of individual taxpayers, offshore income has become substantially more transparent.

Accordingly, the tax authorities may require taxpayers to make retrospective filings in respect of previously unreported offshore income, settle any outstanding tax liabilities and pay late payment surcharges in accordance with applicable law.

From an enforcement perspective, cross-border executives, senior management of overseas-listed companies and individuals participating in offshore equity incentive programmes have increasingly become areas of focus for the PRC tax authorities.

Key Takeaways for Ms. B

Ms. B's case highlights the tax compliance issues typically arising in cross-border employment arrangements involving multiple jurisdictions.

The analysis above demonstrates that the relevant tax issues often involve the coordination of domestic tax rules and tax treaty provisions across different jurisdictions. Whether dual tax residency arises, whether foreign tax credits are available, and whether permanent establishment exposure is triggered will depend on the individual's employment structure, physical presence, remuneration arrangements, and other factual circumstances.

Accordingly, these issues require a fact-specific assessment and cannot be resolved through general rules alone.

Mr. C – A Globally Mobile Individual with Overseas Relocation and Cross-border Asset Allocation

Background

- Mr. C is a financially independent individual investor.
- He and his spouse are Chinese nationals holding PRC passports. Although they continue to maintain household registration in China and own residential property in China, their primary centre of life has gradually shifted to Singapore in recent years.
- Both Mr. C and his spouse have obtained Singapore permanent residency. They now spend approximately two to three months per year in China, while residing in Singapore for the remainder of the year. Their children are currently studying in the United States.
- Mr. C was previously engaged in operating businesses but has since stepped back from active management. He now manages family wealth through a Singapore-based family office structure, with investments spanning Hong Kong-listed equities, US-listed equities, offshore private funds, and

real estate located in multiple jurisdictions. In addition, Mr. C has implemented offshore life insurance arrangements for estate planning and wealth protection purposes, with policies covering both himself and his family members.

Mr. C therefore represents a typical profile of a globally mobile individual who has relocated overseas while maintaining substantial economic and personal ties with China.

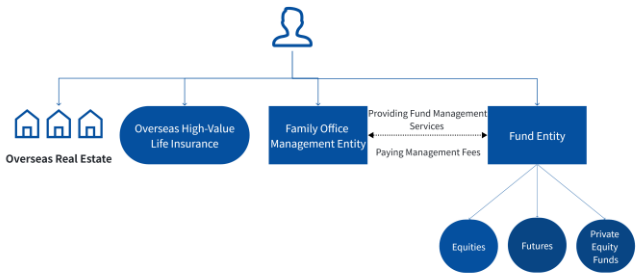

Figure 3: Schematic Diagram of Mr.C's Relevant Rights and Interests

Depending on the relevant facts and circumstances, Mr. C may face the following key tax compliance issues.

I. Dual Tax Residency and Tie-breaker Analysis

Although Mr. C and his spouse have obtained Singapore permanent residency and spend the majority of their time outside China, they continue to maintain significant connections with China, including household registration, residential property ownership, Chinese nationality, and certain economic interests.

As a result, they may potentially be regarded as tax residents of both China and Singapore under their respective domestic tax laws.

In such cases, the determination of tax residency for treaty purposes must follow the **tie-breaker rules** under the applicable double tax treaty between China and Singapore. These rules generally consider, in sequence, permanent home, centre of vital interests, habitual abode, and nationality.

In practice, the key issue is often not whether an individual holds foreign permanent residency, but whether their **centre of vital interests** and **habitual residence** have been effectively relocated.

Where necessary, Mr. C may seek to obtain a **tax residency certificate** from the relevant tax authorities or initiate the mutual agreement procedure ("**MAP**") under the applicable tax treaty to resolve potential dual residency issues.

II. Family Office Structures and Look-through Analysis

Mr. C manages his global investment portfolio through a Singapore-based family office structure. However, the establishment of such a structure does not, in itself, alter the ultimate tax obligations of the beneficial owner.

In practice, tax analysis of family office arrangements typically requires a **look-through approach** to identify the legal and tax characterisation of each entity within the structure, determine the attribution of different types of income, and assess the interaction between multiple tax jurisdictions, tax treaties, and foreign tax credit regimes.

In addition, it is necessary to consider whether offshore holding entities within the structure may be subject to the PRC **Controlled Foreign Corporation (CFC)** rules, and whether preferential tax regimes such as Singapore's **Section 13O or 13U** schemes may have any implications for PRC tax treatment.

It is a common misconception that the establishment of a family office structure automatically eliminates CRS reporting obligations. In reality, whether a family office qualifies as a **Financial Institution ("FI")** under the CRS must be assessed based on its actual business model and activities.

Even where an entity qualifies as an FI, it is still required to carry out due diligence and reporting obligations under the CRS framework. Accordingly, under the CRS 2.0 regime, information relating to the account holder, settlor, beneficiary or controlling person may still be subject to automatic exchange with relevant tax authorities.

In this context, family office structures are expected to remain one of the most complex areas in global tax transparency compliance.

III. Tax Treatment of Offshore Insurance Arrangements

Mr. C has also implemented offshore life insurance policies for himself and his family members, including high-value protection policies.

Under current PRC tax law, the tax treatment of offshore insurance products remains relatively underdeveloped. Key issues such as the characterisation of surrender proceeds, the tax treatment of policy loans, and whether insurance payouts constitute taxable income remain subject to uncertainty.

This is particularly relevant for investment-linked insurance ("**ILP**") and universal life ("**UL**") products, which combine protection and investment features. The tax characterisation of such products may therefore be more complex and may potentially trigger application of general anti-avoidance principles depending on the specific structure and cash flow arrangements.

IV. Taxation of Offshore Real Estate Income

If Mr. C qualifies as a PRC tax resident, rental income derived from offshore real estate, as well as capital gains arising from the disposal of such property, may be subject to PRC individual income tax.

Although China has not yet joined the OECD-supported **Automatic Exchange of Information on Real Estate (IPI MCAA)**, which is expected to commence information exchange around 2029, this development reflects a broader global trend toward increased transparency in real estate ownership.

From a practical perspective, maintaining complete documentation of acquisition costs, including purchase price, transaction taxes and renovation expenses, is critical for future capital gains tax calculations and potential audit defence.

Key Takeaways for Mr. C

Mr. C's case reflects the tax compliance challenges commonly faced by globally mobile individuals who have relocated overseas while maintaining substantial economic and personal connections with China.

The issues discussed above typically involve the interaction of multiple tax systems, tax treaty provisions, and increasingly sophisticated international tax transparency mechanisms. Whether an individual remains a PRC tax resident, how offshore income should be characterised and attributed, and whether offshore structures give rise to PRC tax liabilities all depend on a detailed analysis of the relevant facts and circumstances.

Accordingly, these issues cannot be determined in abstract terms and must be assessed on a case-by-case basis.

Conclusion

Mr. A, Ms. B and Mr. C represent three typical profiles of Chinese individuals investing overseas today. Although their circumstances differ, they share a common challenge: as global asset allocation becomes increasingly sophisticated, tax compliance has not always received the same level of attention as investment management and wealth succession planning. As international tax transparency continues to deepen and tax enforcement continues to strengthen worldwide, **tax compliance is becoming a fundamental element of global asset allocation and wealth succession planning**. Looking ahead, **successful cross-border wealth planning will depend not only on how assets are structured globally, but also on whether those structures can withstand increasing tax transparency and regulatory scrutiny**.

2. Tax Compliance for Chinese Individuals Investing Overseas (Part II): CRS 2.0, Understanding Your Overseas Wealth Structure

Authors: Han CHEN | Hao WU[2]

In our first article of this series *Tax Compliance for Chinese Individuals Investing Overseas (Part I): Key Tax Considerations for Three Types of Investors*, we introduced three typical categories of overseas investors: (1) entrepreneurs holding domestic and overseas assets through offshore holding structures; (2) multinational executives working cross-border and receiving remuneration in different jurisdictions; (3) globally mobile individuals who have relocated overseas while maintaining Chinese nationality and significant economic connections with China.

Although these investors differ significantly in terms of their personal background, investment activities and asset-holding structures, they share a common question in the CRS 2.0 era:

What offshore asset information can tax authorities actually access and analyze through CRS 2.0?

To explore this evolving transparency framework, we have divided our analysis into two parts:

(1) CRS 2.0, Understanding Your Overseas Wealth Structure

(2) Beyond CRS, The Beneficial Ownership Regime as a Parallel Transparency Framework

Why Did CRS Need to Evolve into CRS 2.0?

Since China first participated in the CRS automatic exchange of financial account information in September 2018, offshore financial account information has been continuously exchanged with Chinese tax authorities. Over the past several years, CRS has evolved beyond its initial stage of simply establishing an international information exchange mechanism. It has increasingly become an integral part of tax administrations' routine risk identification, data analysis and compliance enforcement processes.

In particular, since 2025, CRS information has been more extensively utilized in tax administration across China. The review of potential offshore income risks has gradually shifted from case-by-case investigations and pilot initiatives toward a more systematic and regularized compliance framework. For individuals holding offshore assets, CRS is no longer merely an international tax transparency standard; it has become an important source of information supporting tax risk assessment and enforcement by tax authorities.

However, nearly a decade of implementation has also revealed certain limitations of the first generation CRS framework (hereinafter referred to as "**CRS 1.0**").

Under CRS 1.0, tax authorities can obtain key financial account information, including account balances, interest income, dividend income and proceeds from the sale of financial assets. Nevertheless, **in our experience advising on related matters, such information primarily provides an account-level view of offshore assets, while offering limited visibility into the underlying ownership structures, control**

[2] Lianjie Huang has contributions to this article.

relationships and legal arrangements behind those assets.

For example, tax authorities may have access to the value of assets held in an offshore account by a tax resident, but such information alone may not clearly reveal whether the assets represent deposits, securities, investment funds or other financial products. More importantly, it may remain difficult to determine whether the assets are held directly by an individual or indirectly through complex structures such as offshore companies, family trusts or other legal arrangements. Even where the ultimate controlling person can be identified, CRS 1.0 may not provide sufficient details regarding that person's precise role and relationship within the ownership structure.

These information gaps have limited, to some extent, the effectiveness of CRS information in tax risk assessment and anti-avoidance efforts. Where offshore assets are held through complex arrangements lacking genuine commercial purposes or sufficient tax rationale, the inability to identify the underlying control relationships and economic substance may increase the difficulty for tax authorities in conducting look-through analysis, determining the appropriate attribution of income and assessing the reasonableness of tax treatment.

Against this background, CRS 2.0 represents a significant evolution of the global tax transparency framework. Rather than merely expanding the volume of information exchanged, **the revised framework aims to provide tax authorities with a more comprehensive understanding of the ownership, control and economic substance behind offshore financial assets.**

What Has Changed Under CRS 2.0?

Against this background, the OECD released the *Crypto-Asset Reporting Framework and 2023 Update to the Common Reporting Standard* in 2023[3].

While maintaining the fundamental framework of the CRS, the 2023 Update introduced one of the most significant revisions in recent years, expanding the scope of reportable financial assets, strengthening financial institutions' due diligence obligations, and increasing the level of detail required in CRS reporting.

This article focuses solely on the amendments to the existing CRS framework (2023 Update to the Common Reporting Standard, hereinafter referred to as "**CRS 2.0**") and does not discuss the newly introduced Crypto-Asset Reporting Framework (CARF).

The key amendments under CRS 2.0 are summarized below:

Table 1: Key Amendments under OECD CRS 2.0

No.	Key Amendment	Summary
I. Expansion of reportable financial assets and accounts		
1	Inclusion of Specified Electronic	Specified electronic money products are included within

[3] OECD, Crypto-Asset Reporting Framework and 2023 Update to the Common Reporting Standard, https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/06/international-standards-for-automatic-exchange-of-information-in-tax-matters_ab3a23bc/896d79d1-en.pdf.

No.	Key Amendment	Summary
	I. Expansion of reportable financial assets and accounts	
	Money Products (SEMP) within Scope	the definition of "Depository Account".
2	Inclusion of Central Bank Digital Currencies (CBDCs) within Scope	CBDCs are brought within the definition of "Financial Account".
3	Inclusion of Crypto-Assets Derivatives & Investment Entities Holding Crypto-Assets within Scope	Derivatives referencing crypto-assets and investment entities investing in crypto-assets are included within the expanded scope of financial assets (distinguished from direct crypto-asset holdings and transactions covered by CARF).
	II. Enhanced due diligence and anti-avoidance measures	
4	Full disclosure of multiple tax residencies	Account holders with multiple tax residencies must disclose all relevant jurisdictions and cannot rely solely on treaty tie-breaker rules to report only one jurisdiction of residence.
5	Enhanced scrutiny of CBI/RBI schemes	Financial institutions are required to pay closer attention to potential risks arising from Citizenship-by-Investment (CBI) and Residence-by-Investment (RBI) programmes.
6	Stricter review of self-certifications	Financial institutions must assess the reasonableness of self-certifications by considering all available customer information, including information obtained through AML/KYC procedures.
	III. Increased granularity of reporting information	
7	Reporting of controlling person roles	Financial institutions must report the specific role of each controlling person in relation to a Passive NFE, such as director, shareholder or beneficiary.
8	New Markers for Joint Accounts & New/Pre-Existing Accounts	Reporting must indicate whether an account is a joint account and whether it is a new or pre-existing account.
9	New Mandatory Reporting of Account Type Classification	Reportable accounts must be categorized as one of the following: Depository Account, Custodial Account, Cash Value Insurance Contract or Annuity Contract, or Equity/Debt Interest in an Investment Entity.

At first glance, CRS 2.0 may appear to be merely an expansion of reporting fields. However, its practical impact goes far beyond the addition of several new data points. One of the most important changes under CRS 2.0 is that the regulatory focus has shifted from simply **"obtaining account information"** to **"verifying the reliability of reported information and understanding the control relationships behind financial assets."**

During the implementation of CRS 1.0, some account holders treated tax residency self-certification as a purely procedural requirement: once the form was signed, the process was effectively completed. In practice, financial institutions often relied primarily on information provided by customers when conducting their reviews.

This approach created potential risks to CRS accuracy. For example, some individuals may have obtained tax identification numbers from certain jurisdictions through low-cost residency or tax number arrangements and subsequently represented themselves to financial institutions as tax residents of those jurisdictions, without fully disclosing their actual tax residency status.

CRS 2.0 directly addresses these risks by strengthening financial institutions' verification obligations. Where an account holder may have tax residency connections with multiple jurisdictions, financial institutions can no longer simply rely on treaty tie-breaker rules to identify a single jurisdiction of residence for CRS purposes. Instead, all relevant tax residency jurisdictions must be disclosed. Similarly, where citizenship-by-investment or residence-by-investment programmes may create risks of inaccurate tax residency declarations, financial institutions are expected to apply enhanced scrutiny. They must also assess the reasonableness of customer self-certifications by taking into account all available AML/KYC information, including passport details, residential addresses, telephone numbers, transaction patterns and other relevant customer information. Where inconsistencies arise, financial institutions may request further explanations or supporting documentation.

This means that arrangements previously relying on **"identity documents + self-certification"** to create information gaps are likely to face increasing scrutiny. Individuals who have obtained alternative residency status through immigration programmes, maintain cross-border living arrangements, or have potential multiple tax residencies should carefully reassess whether their existing tax residency analysis and CRS reporting positions remain sustainable.

Beyond tax residency identification, another fundamental change under CRS 2.0 is the increased structural granularity of exchanged information. The introduction of controlling person roles, account classifications and joint account indicators does not merely increase the volume of information exchanged. More importantly, it enables tax authorities to connect previously fragmented data points – including account information, ownership structures, legal relationships, control arrangements and tax residency information – and develop a more comprehensive understanding of offshore asset structures.

In the CRS 1.0 era, tax authorities primarily saw **offshore financial account data**. In the CRS 2.0 era, with enhanced information on controlling persons, account types and ownership relationships, tax authorities will increasingly be able to identify the **structures, control relationships and tax residency profiles behind offshore assets**.

In other words, CRS is evolving from **"account transparency" to "structural transparency."** At the same time, CRS 2.0 strengthens the ability of tax authorities and financial institutions to cross-check information from multiple sources. The room for relying on identity documents, self-certifications or fragmented structural arrangements to maintain information asymmetry is narrowing. **In the CRS 2.0 era, the long-term sustainability of offshore structures will increasingly depend on whether the underlying details – often overlooked in the past – are properly aligned.**

Why CRS Compliance Outcomes Depend on Local Legal Frameworks and Regulatory Practices

According to the latest data released by the OECD on 3 July 2026, 77 jurisdictions have committed to implementing CRS 2.0[4]. These jurisdictions are expected to complete the necessary domestic legislative processes over the next three years and conduct their first exchanges of information under the amended CRS framework.

It is important to note, however, that the OECD CRS framework represents an internationally agreed standard rather than directly applicable domestic law. Each jurisdiction must translate the CRS 2.0 requirements into its own legal and regulatory framework through domestic legislation, administrative guidance, and supervisory practices.

As a result, while CRS 2.0 establishes a common global standard, its practical implementation will inevitably vary across jurisdictions. Differences may arise in areas such as legislative timelines, regulatory priorities, enforcement approaches, and the level of scrutiny applied by local authorities.

For financial institutions and investors, the future CRS compliance landscape will therefore be shaped by a combination of **a unified OECD standard and jurisdiction-specific implementation rules**. **Understanding not only the CRS 2.0 requirements themselves, but also the local legal framework and regulatory practices of the relevant financial centre**, will become increasingly important for effective cross-border tax compliance management.

Figure 1: Steps for the implementation of CRS 2.0 in different jurisdictions

Table 2: CRS 2.0 Implementation Status Across in Key Financial Jurisdictions

Jurisdiction	Domestic Legal Basis	Effective Date of CRS 2.0	First Reporting and Exchange under CRS 2.0
Cayman Islands	Tax Information Authority (International Tax Compliance) (Common Reporting Standard) (Amendment) Regulations, 2025, gazetted on 27 November 2025[5]	1 January 2026	2027
British Virgin Islands	Updated CRS Guidance Notes issued under the *Mutual Legal Assistance (Tax Matters) Act, 2003* (as amended), updated	1 January 2026	2027

[4] OECD, Signatories of the Addendum to the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information Addendum to the CRS-MCAA, https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/tax-transparency-and-international-co-operation/addendum-crs-mcaa-signatories.pdf.

[5] Cayman Islands, CRS Rules：https://www.ditc.ky/frameworks/crs/.

Jurisdiction	Domestic Legal Basis	Effective Date of CRS 2.0	First Reporting and Exchange under CRS 2.0
	on 21 April 2026[6]		
Singapore	CRS implementation framework based on: 1. Part 20B of the *Income Tax Act* and the *Common Reporting Standard Regulations 2016*; 2. IRAS guidance, including the *Common Reporting Standard e-Tax Guide* (Fourth Edition, 31 October 2025); and[7] 3. IRAS CRS·FAQs, ·including·the· IRAS FAQs on the Common Reporting Standard[8]. Singapore confirmed its intention to implement CRS 2.0 on 26 June 2025. As of the date of this article, no legislative amendments specifically incorporating CRS 2.0 have been enacted. However, IRAS released the CRS XML Schema V3.0 and XML Schema User Guide (Fourth Edition) on 30 January 2026, reflecting the technical implementation requirements for CRS 2.0 reporting from 1 January 2027[9].	1 January 2027	2028
Hong Kong, SAR	CRS framework based on: 1. the *Inland Revenue (Amendment) (Automatic Exchange of Financial Account Information) Ordinance* gazetted on 26 June 2026, strengthening the administrative framework following the OECD second-round peer review[10]; and 2. the *Inland Revenue (Amendment) (Crypto-Asset Reporting Framework*	1. January 2027 2. Crypto-Asset Reporting Framework takes effect on 1 January 2027; substantive CRS amendments	2028 (CARF-related reporting); 2029 (substantive CRS 2.0 reporting)

6 BVI, CRS and CARF：https://bviita.vg/blog/2025/10/23/crs-2-0-and-carf/.

7 IRAS, Common Reporting Standard e-Tax Guide, Fourth Edition (31 October 2025), https://www.iras.gov.sg/docs/default-source/e-tax/iras-common-reporting-standard_e-tax-guide-2.pdf?sfvrsn=58627c6a_46.

8 IRAS, IRAS FAQs on the Common Reporting Standard, https://www.iras.gov.sg/docs/default-source/uploadedfiles/pdf/iras-faqs-on-the-common-reporting-standard-(23-oct-2021).pdf?sfvrsn=d955cd6b_11.

9 Inland Revenue (Amendment) (Automatic Exchange of Information) Ordinance 2026, https://www.ird.gov.hk/eng/tax/aeoi/ordinance_2026.htm.

10 Inland Revenue (Amendment) (Automatic Exchange of Information) Ordinance 2026, https://www.ird.gov.hk/eng/tax/aeoi/ordinance_2026.htm.

Jurisdiction	Domestic Legal Basis	Effective Date of CRS 2.0	First Reporting and Exchange under CRS 2.0
	and Amendments to Common Reporting Standard) Bill, introduced into the Legislative Council on 3 June 2026, implementing substantive CRS 2.0 amendments[11].	take effect on 1 January 2028	

The practical implementation of CRS cannot be assessed solely by reviewing the applicable legislation. A meaningful analysis requires consideration of three interconnected factors: **the legal framework, regulatory enforcement, and the compliance practices adopted by financial institutions.**

Taking the Cayman Islands, the British Virgin Islands (BVI), Singapore and Hong Kong SAR as examples, significant differences can be observed despite these jurisdictions all implementing the CRS framework.

First, from a legislative perspective, all four jurisdictions have established penalty regimes addressing failures to comply with due diligence obligations, reporting requirements and information accuracy obligations. However, the design and level of detail of these regimes vary.

The Cayman Islands and the BVI generally adopt more granular penalty structures, with different sanctions applying to different types of non-compliance and, in certain circumstances, criminal liability being available. Their legislation provides relatively detailed compliance obligations and enforcement consequences.

By contrast, Singapore and Hong Kong SAR primarily rely on administrative penalties and ongoing regulatory supervision. Their legislative provisions are comparatively concise, with greater emphasis placed on regulatory oversight, compliance reviews and internal control mechanisms to ensure that financial institutions fulfil their CRS obligations.

Second, from a regulatory enforcement perspective, Singapore and Hong Kong SAR benefit from mature financial regulatory systems and have consistently adopted risk-based supervision and compliance monitoring approaches. Their enforcement environment is generally viewed as stable and robust.

The Cayman Islands has also strengthened its enforcement efforts in recent years, partly driven by international peer review processes and increasing expectations regarding effective implementation of international tax transparency standards.

Third, from the perspective of individual investors, the most immediate impact is often reflected in financial institutions' compliance requirements.

The BVI has continued to enhance its regulatory framework; however, questions regarding the frequency of enforcement actions, depth of compliance reviews and practical effectiveness of supervision remain areas subject to ongoing international assessment.

Third, from the perspective of individual investors, the most immediate impact is often reflected in financial

[11] Inland Revenue (Amendment) (Crypto-Asset Reporting Framework and Amended Common Reporting Standard) Bill 2026, https://www.ird.gov.hk/eng/tax/aeoi/crs_bill_2026.htm.

institutions' compliance requirements.

In jurisdictions with more mature regulatory systems and stricter enforcement environments, financial institutions are generally more likely to adopt a conservative risk management approach. During account opening procedures, ongoing due diligence reviews and tax residency verification processes, clients may be required to provide more comprehensive supporting documentation.

Financial institutions may also conduct more detailed reviews of complex ownership structures, trust arrangements and potential multiple tax residency situations to ensure the accuracy and reliability of CRS reporting.

Therefore, understanding CRS requires more than simply reviewing statutory provisions or regulatory texts. **The key question is how these rules operate in practice** – including **how regulators interpret and enforce the framework, how financial institutions apply compliance standards, and how industry practices shape the actual CRS experience faced by investors**.

IV CRS 2.0: What Does It Mean for Individual Investors?

For the three typical investor profiles discussed in our previous article *Tax Compliance for Chinese Individuals Investing Overseas (Part I): Key Tax Considerations for Three Types of Investors*, the impact of CRS 2.0 goes far beyond the simple fact that "more information will be reported." The more fundamental change is that CRS 2.0 represents a shift in how tax authorities identify and analyze cross-border assets.

I. Entrepreneur Mr. A: Offshore Companies, Family Trusts and Private Investment Structures

For entrepreneurs holding offshore assets through offshore companies, family trusts or private investment companies, the key issue is no longer merely the name under which an account is registered.

Instead, greater attention will be placed on how financial institutions identify the controlling persons, ownership relationships and legal nature of these arrangements.

Under CRS 2.0, enhanced reporting fields and greater transparency regarding controlling persons may allow tax authorities to better understand the relationship between nominal ownership and actual control. Structures that previously appeared complex or opaque may become increasingly transparent through the combination of account information, ownership data and control relationship reporting.

II. Cross-Border Executive Ms. B: Tax Residency, Employment Income and Personal Reporting Consistency

For cross-border executives, CRS 2.0 places greater emphasis on the consistency between tax residency status, self-certification information and financial account records.

The alignment between cross-border employment income, equity incentives, offshore account income and individual income tax filings may become an increasingly important factor in future tax risk analysis.

Any inconsistency between tax residency positions or information reported across different jurisdictions may increase the likelihood of further review.

III. Global Investor Mr. C: Integrated Visibility of Global Wealth Structures

For individuals who have already established diversified global asset portfolios, family offices, offshore securities accounts, insurance policies and other financial assets will no longer be viewed as isolated pieces of information.

With greater transparency regarding account relationships, controlling persons and beneficiary arrangements, different components of an individual's wealth structure may increasingly be analyzed together, allowing tax authorities to develop a more comprehensive view of an individual's and family's global asset profile.

IV. Practical Steps for Offshore Investors

Before CRS 2.0 is fully implemented, offshore investors should consider taking the following steps:

1. Conduct a comprehensive review of existing offshore assets

Review offshore assets held through banks, trust companies, insurance companies, securities institutions and other reporting financial institutions, and assess how CRS 2.0 may affect their reporting obligations and compliance procedures.

2. Review existing self-certifications and tax residency information

Reassess existing self-certification forms, tax residency positions and account information to ensure that all relevant information remains accurate, complete and internally consistent.

3. Evaluate ownership structures and beneficiary arrangements

For assets held through offshore companies, trusts or other legal arrangements, investors should proactively assess whether controlling relationships, beneficiary arrangements and tax reporting positions remain properly aligned.

4. Plan compliance arrangements based on different implementation timelines

For families with assets located across jurisdictions implementing CRS 2.0 on different timelines, proactive planning will become increasingly important to avoid reactive adjustments after information exchange begins.

In the CRS 2.0 era, offshore investors need to manage more than whether a particular item of offshore income has been properly reported. The more fundamental question is whether their entire global asset structure has:

- a clear ownership rationale;
- a sustainable tax residency position; and
- consistent reporting records across jurisdictions.

Cross-border wealth arrangements are highly interconnected. A weakness in one part of the structure may trigger broader tax consequences across multiple areas.

For individual investors, **the era of relying on isolated solutions or one-off fixes is coming to an end.** Offshore asset tax compliance should instead be viewed as a long-term and integrated management process requiring coordinated consideration of legal structures, tax positions and practical financial industry requirements.

Important Announcement

This Newsletter has been prepared for clients and professional associates of Han Kun Law Offices. Whilst every effort has been made to ensure accuracy, no responsibility can be accepted for errors and omissions, however caused. The information contained in this publication should not be relied on as legal advice and should not be regarded as a substitute for detailed advice in individual cases.

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