

A New Era of Wealth and Estate Planning for PRC High-Net-Worth Families

Executive Summary

Much has been written to explain the tax rules in the Announcement on Matters Relating to Individual Income Tax on Offshore Trusts (Announcement No. 21 of 2026, the "**Announcement No. 21**"), jointly issued by the PRC Ministry of Finance and the State Taxation Administration, and the State Taxation Administration's Announcement on Administration Matters Relating to Individual Income Tax on Offshore Trusts (Announcement No. 15 of 2026, the "**Announcement No. 15**", and together, the "**Announcements**"), both released on 24 July 2026.

In this article we focus on the issues which are relevant to the wealth planners and trustees who are at the forefront of setting up and administering offshore trust structures. We believe that in this new era following the issuance of the Announcements, it is more important than ever for trustees to review and adapt their trust deeds and trust administration policies to address the ever-increasing compliance challenges and fiduciary risks.

For PRC high-net-worth clients, we emphasise the need to work with a team of trusted advisers who can not only give technical interpretation of the relevant PRC tax rules, but also understand the fine details of offshore trust structures as well as have hands-on experience dealing with the local PRC tax authorities.

Announcement No. 21 – a Brief Context

The Announcements set out how individual income tax, at a flat rate of 20%, applies where a "Resident Individual" has settled, funded, controlled or benefited from an offshore trust or trust-like legal arrangement. By expanding the definition of "Resident Individual" to include individuals who have acquired foreign residency but whose principal economic interests originate from within mainland PRC, the Announcements could affect wealthy individuals whether they live in mainland PRC or abroad.

Announcement No. 21 reinforces the already-existing fundamental principle in the PRC Individual Income Tax Law that Resident Individuals are taxed on worldwide income. Recent reports concerning PRC tax treatment of offshore or Hong Kong insurance policy gains and distributions point in the same direction: offshore wealth planning tools are increasingly being viewed through the lens of PRC global taxation compliance obligations.

The Announcements should therefore be seen not as an isolated tax rule, but as part of a broader need for PRC high-net-worth families to review cross-border structures holistically.

It is worth noting that Announcement No. 21 has a retroactive effect on existing trust structures. PRC resident settlors and PRC resident beneficiaries of existing offshore trusts and, in limited cases, the offshore trustee may have a significant PRC income tax exposure.

A preferential 90-day filing window is currently open, with a deadline of 22 October 2026. Filing within this period avoids a late-payment surcharge that would otherwise accrue at 0.05% of the unpaid tax per day (approximately 18.25% per annum).

Considerations for Trustees and Wealth Planners

The primary tax-filing obligation generally rests with the PRC Resident Individual who has funded the offshore trust—typically the settlor, but also the beneficiary in the case of distributions from offshore trusts funded by non-PRC Resident Individuals (Announcement No. 21, Art. 8; Announcement No. 15, Art. 3). A trustee's direct filing and payment-on-behalf role arises only where the Resident Individual settlor has died and the trust is "inherited" by a non-Resident Individual or has no successor (Announcement No. 21, Art. 7; Announcement No. 15, Art. 7). Trustees shall also accurately account for all types of trust income and distributions and shall separately calculate the two types of PRC income by tax year and assist taxpayers with their filings (Announcement No. 15, Art. 11).

While a trustee's obligations may appear to be limited, they are in addition to the fiduciary duties the trustee has to fulfil in all offshore trust structures. There are immediate operational steps to consider:

Client-level health check

- Map each PRC-connected client's exposure: Residency status of settlors and beneficiaries;
- The roles and powers of any protectors, power holders or investment committees;
- The types and nature of assets contributed;
- Dates and values of all contributions; and
- Dates and values of all realised income and the related distribution history.

Information sharing vs. confidentiality

PRC settlors and beneficiaries will need detailed trust-level financial data to meet their filing obligations. Trustees should check:

- Whether the trust deed and related documents permit disclosure of trust records to PRC tax advisers, other professional advisers and competent authorities;
- Whether beneficiary or protector consent is required; and
- Whether indemnity, exoneration and other protective provisions adequately cover the tax-reporting assistance and related disclosures which are contemplated by the Announcements, while still respecting applicable confidentiality and data-protection requirements.

The trustee may need to arrange for the Chinese translation of the trust deed, documents and other materials which will eventually have to be submitted to the PRC tax authority (see Announcement No. 15, Art. 13 which requires Chinese translations of foreign-language materials).



Reviewing trust deeds

Trustees should review existing trust deeds and trust administration protocols to consider if they adequately address trustees' fiduciary risks as well as the applicable PRC tax obligations in the post-Announcement No. 21 era. For example:

- Is it appropriate to add the PRC resident settlor as the beneficiary to allow him or her to receive trust distributions for the purpose of meeting the PRC income tax obligations in respect of the trust structure? If that is problematic for any reason, would it be more appropriate to otherwise provide the trustee with the necessary power to fund any payments that the Announcements require? The trustee would have to balance the PRC tax considerations and obligations against its fiduciary duty to the beneficiaries.
- Are the provisions on tax reserve and indemnity adequate?
- Are the provisions on disclosure of trust records robust enough?
- It may be desirable to incorporate the concept of "the successor of the settlor" into the trust deed through bespoke drafting. Depending on the family circumstances and the PRC tax advice, the trust deed may provide that the PRC resident settlor has power but not the obligation to appoint a successor effective upon his or her death.

There may not be a one-size-fits-all trust deed template to address the new issues. On the other hand, our experience in advising private wealth structures involving high tax jurisdictions such as the U.K., the U.S. and Canada may become useful, as some of the concepts and principles which are set out in the Announcements are similar to the complex tax rules we deal with on a regular basis.

Liquidity and cash-flow planning

Where a trust holds primarily illiquid assets, or the relevant trust assets have already been distributed, the trustee may wish to obtain comfort from the PRC resident settlor (and his successor for purposes of the Announcement No. 21, if any) that the settlor has set aside and will set aside sufficient cash to meet his or her ongoing PRC income tax obligations.

For the existing offshore trust structures, the trustee may have to consider liquidating certain trust assets quickly and figuring out a mechanism to transfer the cash to the PRC resident settlor in order to allow the settlor (or the trustee, as the case may be) to meet tax filing deadlines.

In the limited circumstances addressed by the Announcement No. 15, Art. 8, a Resident Individual or trustee facing difficulty paying tax may be able to pay it in equal instalments over up to five years, but only if the required filing is made with the competent tax authority before the end of the tax declaration period.

However, the Announcements do not specifically address how tax payments can be remitted from an overseas bank account to the mainland PRC tax authority.

Two sets of financial records?

Announcement No. 15 includes the template tax reporting forms to be completed by the applicable taxpayer. These forms require extensive details on the offshore trust structure as well as the financial statements, operating income and income distributions of the offshore trust. Announcement No. 21 has explicitly disallowed the deduction of trustee fees, legal fees and other expenses for the purpose of calculating trust income.

The PRC tax regime created by the Announcements essentially requires a separate tax computation exercise which cannot be completed by simply extracting information from the usual cost-basis accounting documents the offshore trustees would prepare. In practical terms, the trustees may have to prepare two sets of financial records for two different purposes.

These operational questions are best addressed with experienced onshore and offshore legal and tax advisers working together as a cohesive team.

Trustees, Legal Advisers and PRC Tax Advisers Working Together: A Coordinated Approach

There is no doubt that the Announcements have changed the landscape of private wealth structuring for PRC high-net-worth families. This shift calls for seasoned practitioners who can give practical, real-world advice to ensure compliance with the Announcements and alignment with the clients' long-term objectives. Technical interpretation of the new rules is not sufficient on its own. Clients expect their advisers to also have a deep understanding of the broad family circumstances, adopt a pragmatic approach, and diligently work with the trustees and other advisers to put the right compliance measures in place.

In some cases, it is necessary to delve into the nuances of the offshore structures to help the clients to make an informed decision. In other cases, it is necessary to involve tax specialists with experience in interacting with local tax authorities. Throughout this process, trustees, legal advisers, PRC tax advisers and other professional advisers will often need to work closely together.

Trusts have never been solely a tax planning tool; they provide a framework for succession, governance and the long-term stewardship of family wealth. Most of our PRC clients have cross-border issues. These factors and objectives have not changed following the release of the Announcements. What has changed is perhaps the start of a shift in mindset. Wealth planning for PRC high-net-worth families requires an excellent grasp of the tax rules in all relevant jurisdictions and how they interact, without losing sight of the goal of achieving smooth wealth succession.



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