TAX TREATMENT OF RESTRICTED STOCK & RSUS

CHINA

	EMPLOYEE	EMPLOYER
GRANT DATE	Restricted stock: Taxed at grant if award is unconditional and shares are listed/publicly traded. The taxable amount is the market value of the shares. Restricted Stock Units (RSUs): No tax consequences.	No tax consequences.
VESTING DATE	Restricted stock: Taxed on vest. The taxable amount is the market value of the shares on vesting. RSUs: Taxed on vest. The taxable amount is the market value of the shares on vesting.	No tax consequences.
WITHHOLDING & PAYMENT OF TAX	The employee's income tax liability is subject to withholding by the employer when the taxable event occurs.	Where income tax is payable it must be withheld and remitted to the tax authorities with the regular tax payments.
SOCIAL SECURITY	The employee may have a liability to social security contributions and this is subject to local practice. Social security is capped at a maximum annual income, so often no further social security will be due on share benefits.	If required, employee social security contributions must be withheld and remitted to the tax authorities together with the employer's social security contributions with the regular tax payments.
REPORTING	If there is no employer in China to file an Individual Income Tax (IIT) return on behalf of the employee, the employee shall file a monthly IIT return including details of shares released The employee may also be required to file an annual individual income tax return.	If there is an employer in China, such entity must file a monthly IIT return on behalf of the employee including details of shares released.

For further information and to register for future updates contact:

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Defined terms used in this summary:

Restricted Stock - Issued shares transferred to employees on the date of grant which are typically subject to restrictions on sale or forfeiture for example if performance targets are not met.

Restricted Stock Units – Awards where employees receive a right to acquire shares. Shares are only issued following vesting and attainment of performance targets, if applicable.

This summary has been prepared on the basis that employees are resident in China throughout the period from grant of stock awards until the shares are sold and that the employee is employed by a local employer in China, which is a subsidiary of an overseas parent. The potential tax consequences may vary greatly depending on your company's equity plan's design, administration, as well as many other factors.

Should you have a need for a trusted advisor in this area, please contact BDO's Global Equity team.

This information is current as of August 2016.

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CHINA

	EMPLOYEE	EMPLOYER
SALE OF SHARES	Sale of shares is generally subject to income tax.	No tax consequences.
IS A CORPORATION TAX DEDUCTION AVAILABLE?	If the underlying shares are taxed upon grant without vesting conditions, to the extent that the relevant cost and expense are recognized according to accounting treatment, the relevant cost and expense can be treated as deductible salaries expense in calculating the enterprise income tax payable. If there are vesting conditions for the RS/RSU which are not met during the vesting period, the relevant cost and expense recognized according to accounting treatment are not deductible during the vesting period. When the underlying shares are vested to the employee upon the vesting conditions are met, the relevant cost and expense can be treated as deductible salaries expense in calculating the enterprise income tax payable.	
"QUALIFYING" PLANS AVAILABLE?	It may be possible for a stock award plan to qualify for a preferential tax calculation method if certain conditions are met.	
INTERNATIONALLY MOBILE EMPLOYEES	The above summary has been prepared on the basis that employees are resident in China throughout the period from the grant of the stock award until the shares are sold. The rules for internationally mobile employees are complex and there are specific rules applicable to non-resident individuals. Generally, China will have the right to tax the gain if there is a link between the shares which the employee has received and the work of the employee performed in China. China broadly sources equity income based on the period between grant and vesting. It is highly recommended that advice is sought on an individual case by case basis.	
OTHER POINTS FOR CONSIDERATION	Significant details may be required to be filed with the authorities in respect of exchange controls. This summary is provided by BDO for informational purposes only to provide an outline of the general tax and social security position based on current tax law. There are also a number of legal and regulatory issues to consider on the implementation of any employee equity plan including, but not limited to, employee entitlement claims, exchange controls, securities restrictions, prospectus requirements and data protection regulations. We recommend that legal advice is obtained prior to the implementation of any employee equity plan.	

KEY ACTION POINTS

- ✓ Employers are responsible for the withholding of tax and social security on the employee equity awards. Companies should review their systems to ensure that they are sufficiently robust to be able to capture, process and report Restricted Stock grants and RSU vests through the payroll.
- ✓ There are specific rules applicable for Internationally Mobile Employees holding equity in China. We recommend that Companies review their systems to ensure that Internationally Mobile Employees moving in or out of China whilst holding equity can be identified to ensure correct compliance and identify any potential trailing liabilities.
- ✓ Exchange controls and local document submission procedures should be taken into account.