TAX TREATMENT OF STOCK OPTIONS

CHINA

	EMPLOYEE	EMPLOYER
GRANT DATE	No tax consequences.	No tax consequences.
VESTING DATE	No tax consequences.	No tax consequences.
EXERCISE DATE	Income tax arises on the spread at exercise if the stock option is publicly listed on a stock exchange and the option is not transferable at the time of grant.	No tax consequences.
WITHHOLDING & PAYMENT OF TAX	The employee's income tax liability on exercise is subject to withholding by the employer	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 option exercised/granted. 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 options exercised/granted.

For further information and to register for future updates contact:

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Information contained herein is intended to reflect present law and provides only a general outline of the subjects covered. Material discussed herein is meant for general informational purposes only and should not be relied on as professional advice. As such you should consult your own tax advisor regarding your specific tax matters.

This summary has been prepared on the basis that employees are resident in China throughout the period from grant of stock options 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?	The options benefit should be deductible from the subsidiary's income taxes.	
"QUALIFYING" PLANS AVAILABLE?	It may be possible for a stock option 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 share option 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 option 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 by individual basis.	
OTHER POINTS FOR CONSIDERATION	Generally, a public company that offers stock options is required to submit applicable documents translated in Chinese to its local tax authorities, which permits employees to enjoy favorable tax treatment in connection with their options. In some provinces, private companies are not subject to the document submission requirements. The preferential tax calculation is only applicable to employee of a listed company (in the PRC or overseas) or its subsidiaries with which the concerned listed company holds at least 30% of the interests in these subsidiaries. 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 exercise of employee stock options. Companies should review their systems to ensure that they are sufficiently robust to be able to capture, process and report stock option exercises 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.