

New changes in PRC Individual Income Tax



Mazars Tax Newsletter, September 2011

The amended PRC Individual Income Tax ("IIT") has become effective from 1 September 2011. We summarize the salient points of the amendments relevant to employment income below for easy reference:

- Monthly deduction for employment income of local employees has been raised from RMB 2,000 to RMB 3,500. Corresponding monthly deduction for expatriates remains unchanged at RMB 4,800.
- Besides, progressive tax rates have also been changed. The first bracket in the tax rate has been reduced to 3% from 5% while 15% and 40% brackets have been cancelled. As a result, the number of tax brackets is reduced from 9 to 7.

The new tax rates and brackets are set out below:

	Monthly taxable income*(RMB)		Tax rate(%)	Quick deduction ratio
	Tax bracket including tax	Tax bracket excluding tax		
1	1,500 or less	1,455 or less	3	0
2	The part >1,500 and ≤4,500	The part >1,455 and ≤4,155	10	105
3	The part >4,500 and ≤9,000	The part >4,155 and ≤7,755	20	555
4	The part >9,000 and ≤35,000	The part >7,755 and ≤27,255	25	1005
5	The part >35,000 and ≤55,000	The part >27,255 and ≤41,255	30	2755
6	The part >55,000 and ≤80,000	The part >41,255 and ≤57,505	35	5505
7	The part >80,000	The part >57,505	45	13505

The monthly taxable income from wages and salaries shall be the balance after the monthly deduction and mandatory PRC social security contributions. According to the relevant rules and regulations, if employers bear the IIT of employees, the salaries should be "grossed up" in order to arrive at tax inclusive income.

For example, if the taxable income after mandatory social security and monthly deduction is RMB5,000, then it should compute the grossed up income under the following formula:

Tax inclusive income= Quick deduction ratio

1- Tax rate

(Applicable tax rate and quick deduction ratio should be referred to the tax bracket excluding tax)

RMB5,000-555

=5556.25

1-20%

IIT=5,556.25*20%-555=556.25

(Applicable tax rate and quick deduction ratio should be referred to the tax bracket including tax)

- Filing deadline has also been extended to 15 days following the month end instead of 7 days under the former law.



Impacts on employees

The amendments obviously benefit lower income group. According to an estimate, local Chinese employees having monthly gross income in the amount lower than RMB 38,600 would benefit from tax savings under the amendments. It is estimated that among 84 million taxpayer who were subject to IIT under the old rates, 60 million of them would leave the tax nets in this tax reform.

However, high wage earners would need to contribute more to government revenue under the new reform. It is expected that they would need to pay more individual income tax in the ranges of 1.6% to 3.8%.

Impacts on employers

With the changes in tax brackets, employers should revisit their compensation policies to see if there are any impacts. For example, whether the increment in salaries and bonus would result in excessive IIT, thereby defeating the whole purpose of the compensation scheme.

For example, although annual bonus of RMB 972,000 is higher than RMB 948,000 in amount, the after tax income on the former would be less than the latter.

RMB 972,000

- $\text{RMB } 972,000 / 12 = \text{RMB } 81,000$ (Applicable rate and Quick Calculation Ratio: 45%, RMB 13,505)
- $\text{IIT on annual bonus} = \text{RMB } 972,000 \times 45\% - \text{RMB } 13,505 = \text{RMB } 423,895$
- $\text{After-tax annual bonus} = \text{RMB } 972,000 - \text{RMB } 423,895 = \text{RMB } 548,105$

RMB 948,000

- $\text{RMB } 948,000 / 12 = \text{RMB } 79,000$ (Applicable rate and Quick Calculation Ratio: 35%, RMB 5,505)
- $\text{IIT on annual bonus} = \text{RMB } 948,000 \times 35\% - \text{RMB } 5,505 = \text{RMB } 326,295$
- $\text{After-tax annual bonus} = \text{RMB } 948,000 - \text{RMB } 326,295 = \text{RMB } 621,705$

Mazars Greater China

Beijing

1608 - Tower E1 - Oriental Plaza
No.1 East Chang An Ave.
100738 Beijing
Tel.: (+86 10) 8518 9780

Joey ZHOU

Manager
Tel: (+86 10) 8518 9780
Email: joey.zhou@mazars.com.cn

Guangzhou

1308, Grand Tower
No. 228 Tianhe Road - Tianhe District
510620 Guangzhou
Tel.: (+86 20) 3833 0235

Benoit STOS

Managing Director
Tel: (+8620) 3833 0235
Email: benoit.stos@mazars.com.cn

Hong Kong

42nd Floor, Central Plaza,
18 Harbour Road
Wanchai, Hong Kong
Tel.: (+ 852) 2909 5555

Alexander MAK

Managing Director
Tel: (+852) 2909 5660
Email: alexander.mak@mazars.com.hk

Shanghai

8th Floor, One Lujiazui
No. 68 Yin Cheng Middle Road
200120 Shanghai
Tél.: (+86 21) 6168 1088

Peter LAW

Manager
Tel: (+8621) 6168 1088
Email: peter.law@mazars.com.cn

This Newsletter is issued in summary form exclusively for the information of clients of Mazars and others interested in our services and should not be used or relied upon as a substitute for detailed advice or as a basis for formulating business decisions.