



Accounting & Outsourcing Newsletter - Release of “PRC individual income tax implementation rules”

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During the last few months, the Chinese tax authorities announced new regulations on the individual income tax regulations and its application rules.

- On October 20, 2018, the Ministry of Finance and the State Administration of Taxation (SAT) released the “Draft PRC individual income tax implementation rules” and “Draft measures on PRC IIT additional tax itemized deductions”.
- On December 22, 2018, the official “PRC individual income tax implementation rules” was officially announced and the new IIT law will take affect on January 1, 2019.
- On December 27, 2018, the ministry of Finance and SAT released the Caishui [2018] NO. 24 to specify the new tax preferential policy.

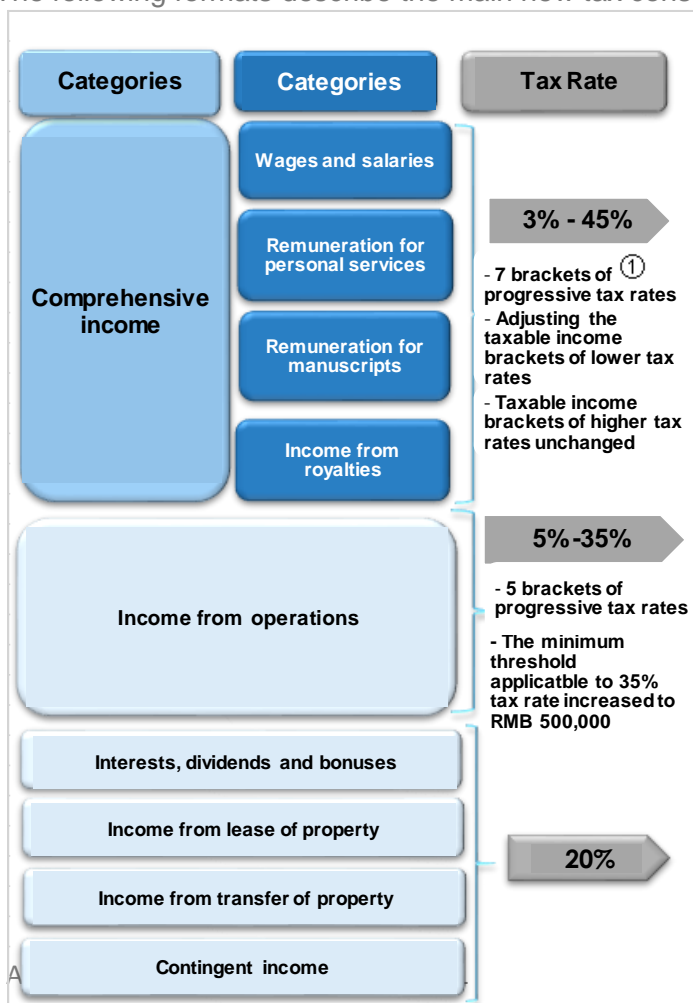
Hereafter, we summarized the main changes for the company and the individual of these changes

01. Summary of new regulation on IIT

New taxable income categories

The new IIT law has consolidated certain taxable income categories, namely income from wages and salaries, income derived from remuneration for personal services, income derived from remuneration for manuscripts and income from royalties into a category called “Comprehensive income”. For the first time, PRC tax residents can deal with the tax filings on the various income included as comprehensive income on an annual basis.

The following formats describe the main new tax consolidated income categories:



The following table is the detail of the new tax rate at ① on the comprehensive income.

The monthly rate is only for reference.

New IIT rates		
	Annual Taxable Income	Tax Rate
1	Not exceeding 36,000	3%
2	Exceeding 36,000 to 144,000	10%
3	Exceeding 144,000 to 300,000	20%
4	Exceeding 300,000 to 420,000	25%
5	Exceeding 420,000 to 660,000	30%
6	Exceeding 660,000 to 960,000	35%
7	Exceeding 960,000	45%
	Monthly Taxable Income	Tax Rate
1	Not exceeding 3,000	3%
2	Exceeding 3,000 to 12,000	10%
3	Exceeding 12,000 to 25,000	20%
4	Exceeding 25,000 to 35,000	25%
5	Exceeding 35,000 to 55,000	30%
6	Exceeding 55,000 to 80,000	35%
7	Exceeding 80,000	45%

The basis of the taxable income is based on the net salary after deduction of individual social contributions, additional itemized deduction (see next page) and CNY 5000 on monthly basis.

Based on the new rules, resident individual taxpayers who receive salaries and wages are withheld IIT on accumulated basis per month. If it is found that they pay IIT in excess at year end, they would apply for tax refund.

Additional itemized deduction

The highlight of the IIT reform is the addition of six itemized deductions to release the burden of taxpayers. The detailed information is included in the following table.

	Deduction	Condition
Child Education expenses	1000 RMB/child/ month by family	Children from 3 year old to higher education
Continuing Education expenses	<ul style="list-style-type: none"> •400 /month for extended education •3600/year for occupational certificate 	<ul style="list-style-type: none"> •Extend Education and occupational certificate of specialized worker •The certificate shall be obtained in 2019
Housing Rental Expenses	<ul style="list-style-type: none"> •1500/month for major cities •1100/month for the medium cities more than 1 million population •800/month for small cities with less than 1 million population 	<ul style="list-style-type: none"> •No resident property in primary working city •Cannot be exacted with housing margage interest at the same time
Housing Mortgage interest	deducted 1000/month by taxpayer or spouse	First residential property mortgage through commercial bank or housing fund
Elderly Care Expenses	<ul style="list-style-type: none"> •2000/month for single child family •2000/month shared by siblings of non single child family, each child can not exceed 1000/month 	<ul style="list-style-type: none"> •Over 60 years old •Biological, step or adoptive parents and grandparents without children
Medical expenses for critical illnesses	<ul style="list-style-type: none"> • 15,000 to annual limitation of 80,000 •The medical expenses will be processed at 2020. 	<ul style="list-style-type: none"> •The medical expenses within the medical insurance catalogue •Self-paid portion of medical expenses after being covered by medical insurance

End of the preferential tax calculation on the so called “Bonus or 13th month”

In the previous regulations, the IIT on the bonus is calculated out of the normal monthly salary and thus the individual can benefit a preferential tax calculation method. This rule will be maintained until December 31st 2021. Starting from January 1st 2022, the bonus will be integrated in the IIT calculation on the annual salary. This integration will bring additional tax burden for the individual.

02. Foreigner’s tax preferential Policy

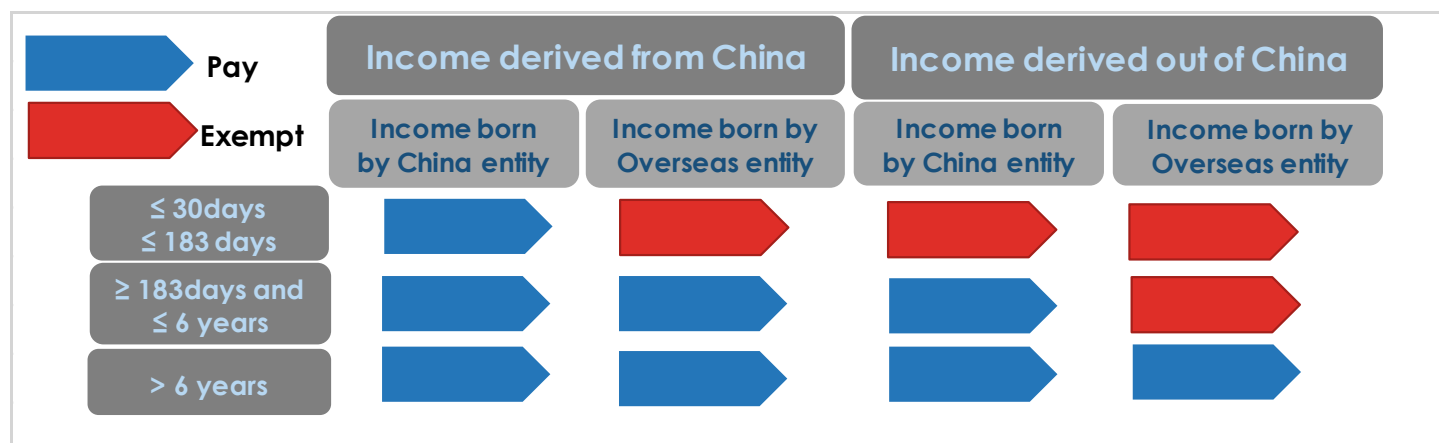
Six-year rule

According to the released new IIT law, the regulation of “six-year rule” instead of “five-year rule” will be implemented. “Six -year rule” is significant to the expat workers including those who from Hong Kong, Taiwan and Macao due to change of basis for the determination of IIT obligations. This new “six-year-rule” is more flexible for taxpayers and encourages more overseas talents to work at China.

The redefinition of “tax resident” in the new IIT law

Resident Individual: the individuals who have domicile in China or non-China-domiciled individuals reside in China at least 183 days in a tax year on their income derived either from inside or outside China.

Non-Resident Individual: the individuals who neither have domicile nor reside in China, or non-China-domiciled individuals reside in China less than 183 days in a tax year on their income derived within China.



Obligation to declare the tax status

Based on the above status, foreigners through its bank or through the tax payer agent must declare his/her individual tax status to the authorities in January 2019 in order to take into account in the IIT system from the tax bureau for the computation of the IIT.

End of tax deductibles items for foreigners:

The regulations mentioned that from 1st January until December 2021, foreigner can still enjoy these additional tax deductibles items such as:

- Housing rental
- Children education
- Language learning
- Home leave
- Meal & Laundry
- Relocation

Starting from **1st of January 2022**, the above items cannot be deductible anymore.

Based on the above new information and regulations, we understand that the Chinese tax authorities gives 3 years preparation period to the individual and the company in order to be ready for the strict application of the new regulations. We strongly recommend you to take advantage of these 3 years to prepare your tax planning for your foreigner employees.

03. TAX AUTHORITY MOBILE APPLICATION

The tax authorities have launched the mobile app to collect the taxpayers' information. If you are under conditions of the additional itemized deduction, you can declare your authentic information through the website and app, and update any change of your information in time.

The mobile app can be downloaded now as followed pictures.



The collection of the information can either be done through the following application, or by the company HR department.

We Mazars can provide a dedicated payroll system tool for your HR department to help to collect the information and manage payroll, if you required.

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