



PHC ADVISORY

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Individual Income Tax
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Individual Income Tax

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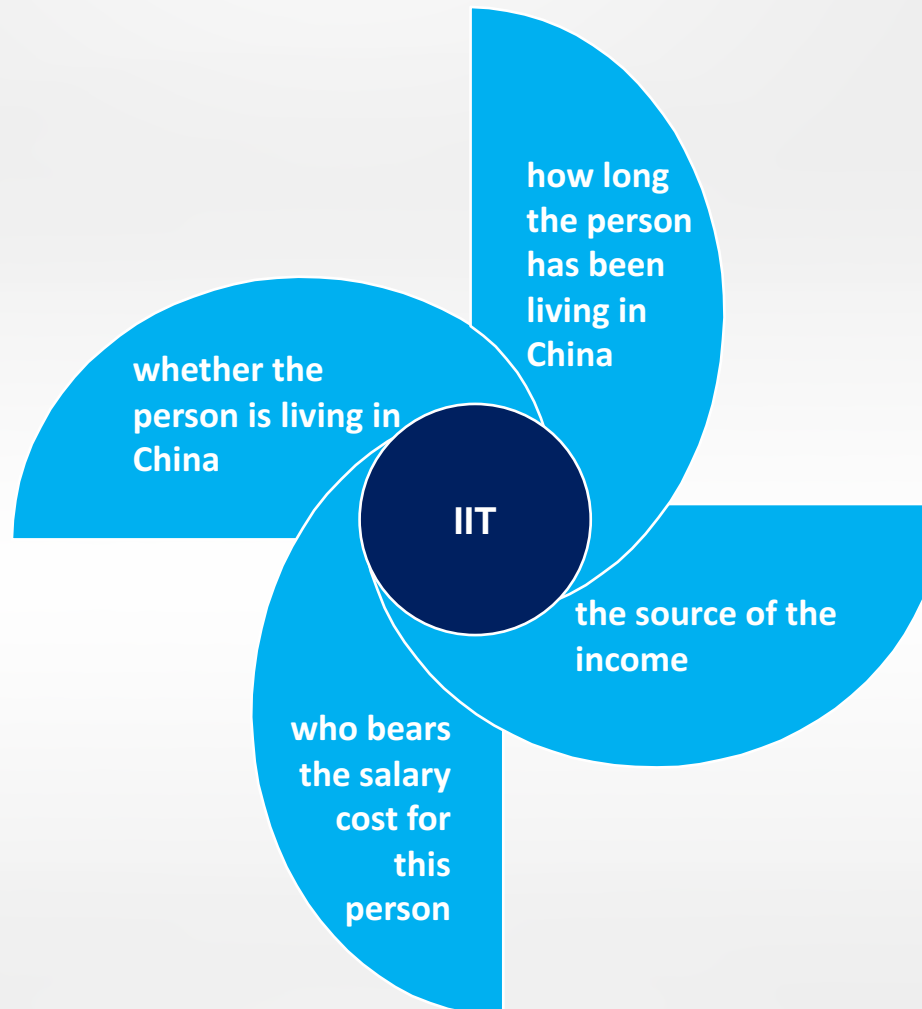
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Individual income tax for foreigners in China

Individual income tax (“IIT”) is a residence-based tax. The key factors for determining whether a person is liable to individual income tax, and the extent to which he/she is liable, are:



Liability to IIT depending on the domicile

For Individuals domiciled in China

All PRC nationals are treated as tax residents in China and are consequently subject to paying IIT on their worldwide income without limitation of source.

Temporary visitors in China $X < 90$ (183)

The employee only need to pay IIT on their employment income derived during their actual working period within China. In case the income is paid by an overseas employer and is not borne by any enterprise or establishment of the overseas employer in China, the income is exempt from Chinese IIT.

Expatriates living in China for a period $183 < X < 365$

The employee are subject to paying IIT in China on the income derived from sources within China, no matter if the income is paid by a Chinese or foreign employer.

Expatriates living in China for a period $1 \text{ year} < X < 5 \text{ years}$

The employee are also subject to paying IIT on their worldwide income in accordance with the Chinese taxation law. In practice IIT is only levied on their income derived from China. The foreign sourced income is not taxable unless it is paid by individuals or enterprises in China.

Expatriates living in China for more than 5 years

To be present in China consecutively for a full year in each year - are treated as tax resident and are subject to IIT on their worldwide income derived from sources within and outside China after the fifth year.

Categories subjects to the Individual Income Tax

According to the Chinese taxation law the following categories of individual income are subject to IIT



Wages and salaries derived from employment, including wages, bonuses, allowances, any other income related to the employment;

Income from personal services as an independent contractor, including accounting, consulting, lecturing, translating, design, decoration, installation, drafting, testing, performances, technical services, brokerages, commissioned services;

Income derived from publishing a manuscript(s) or article(s) in book, newspaper or periodical form;

Partnership income: a partnership enterprise does not pay company tax on its income. It is the income received by the individual partners of the partnership enterprise that is subject to IIT;

Royalty income for providing the right to use patents, trademarks, copyrights, non-patented technology, etc.;

Interest, dividend, and bonus income derived from companies, enterprises, and other organizations or individuals in China;

Income derived from the leasing or renting of buildings, land use rights, machinery, equipment, vehicles, vessels and other property;

Income derived from the assignment of securities, share rights, buildings, land use rights, machinery, equipment, vessels and other property;

Other kinds of income specified by the Ministry of Finance.

Categories subjects to the Individual Income Tax

Taxes on wages and salaries

Deductible and exempted items

Social security benefits for expatriates

Contributions to chinese social security

The new Chinese Social Insurance Law was promulgated on October 28, 2010 and came into effect on July 1, 2011.

Contributions to Chinese social security are tax deductible

Contributions to social security in home country

According to the Circular Guo Shui Fa [1998] No. 101, the Chinese taxation law exempts the social security payment paid or borne by the employer according to the legal obligations imposed by the law of the home country

Employment benefits

- Housing allowance, meal allowance, relocation allowance and laundry expenses;
- Allowances for home visits (normally cost for two flights maximum);
- Language training expenses and children's education expenses.

Benefit exemption requirements:

- the employees pay up-front, then ask for reimbursement from the company;
 - the company pays the expenses directly.
- Documentation requirements in order to secure the exemption treatment for the abovementioned allowances may vary from city to city and are to be checked with the relevant tax bureau in advance to confirm proper treatment.

Categories subjects to the Individual Income Tax

Tax rates

Monthly taxable income	Tax rate	Quick Calculation Deduction (QCD)
≤1,500 CNY	3%	0
>1,500 CNY ≤4,500 CNY	10%	105
>4,500 CNY ≤9,000 CNY	20%	555
>9,000 CNY ≤35,000 CNY	25%	1005
>35,000 CNY ≤ 55,000 CNY	30%	2755
>55,000 CNY ≤ 80,000 CNY	35%	5505
>80,000 CNY	45%	13505

Monthly taxable income

Monthly taxable income of an expatriate is his/her monthly income from salaries or wages less a fixed deduction of CNY 4,800 (3,500 for PRC residents) and other deductible items of income as mentioned above.

Calculation formula

Formula for calculating the IIT payable on wages and salaries is as follows:

Tax payable = (monthly taxable income x applicable tax rate) – QCD

Annual bonus

An annual bonus qualifies for beneficial tax treatment. The bonus may be calculated separately from other taxable salary income in the month of receipt.

There will be no standard deduction offset against the bonus. The bonus should be divided by 12 to determine the applicable tax rate.

Within a calendar year, the method of calculating IIT on an annual bonus mentioned above may only be adopted once for each taxpayer. The expatriate's bonuses other than annual bonus, such as monthly bonus, quarterly bonus, half year bonus, etc., shall be combined with other salary income in the relevant month for payment of IIT.

Categories subjects to the Individual Income Tax

Example tax payable for annual salary



In this case, the individual annual salary income before tax is **CNY 200,000** with annual bonus **CNY 30,000**.
The total annual income is **CNY 270,000** also including allowances deductible **CNY 70,000 (tax free part)**:

- House rent;
- Flight ticket for home-visits twice a year;
- International school tuition fee;
- Business Chinese Course;
- Healthy assurance.

Monthly income	txablew	Tax rate (5%)	Quick Calculation Deduction (QCD)
≤1,500 CNY		3	0
>1,500 CNY ≤4,500 CNY		10	105
>4,500 CNY ≤9,000 CNY		20	555
>9,000 CNY ≤35,000 CNY		25	1005
>35,000 CNY ≤ 55,000 CNY		30	2755
>55,000 CNY ≤ 80,000 CNY		35	5505
>80,000 CNY		45	13505

We performed IIT trial balance as follows:

The IIT calculation for salary is below represented:

- Monthly salary before tax is CNY 16,700 ($200,000 / 12 = 16,700$)

As a result, we calculate tax payable for annual salary income as follows:

- $16,700 - 4,800 = 11,900$, it is within **Stage 4**.
- Tax payable for annual salary income CNY **23,640** is resulted from the formula (Monthly salary income * tax rate stage 4 – QCD)*12= $(11,900 * 0.25 - 1,005) * 12 = 23,640$.

Through the calculation, the total tax payable for salary is **CNY 23,640** in case. The net annually salary is CNY **246,360** and the net monthly salary is **CNY 20,530**.

Meanwhile, we calculate tax payable for annual bonus as follows:

- $30,000 / 12 = 2,500$, it is included in the Stage 2 ($2,500 < 4,500$).
 - Tax payable for annual bonus CNY 2,895 is resulted from the formula $30,000 * 0.10 - 105 = 2,895$.
 - The amount of the Net annual bonus is **27,105**= $30,000 - 2,895$
- Total actual net income= CNY 246,360+ CNY 27,105= **CNY 273,465**



Categories subjects to the Individual Income Tax

Income from personal services

Income from remuneration

Taxable income of each payment	Tax rate (%)	Quick calculation Deduction (QCD)
≤20,000 CNY	20	0
>20,000 CNY ≤ 50,000 CNY	30	2,000
>50,000 CNY	40	7,000

Example: An external Director made a consultancy project with a company and it affords 40,000 CNY, deducting the cost of 20%, the amount of taxable income is 32,000 CNY

The amount of income tax payable = (1-20%) *income per personal service* applicable tax rate - quick deduction

$$40000 \times (1-20\%) \times 30\% - 2000 = 7600$$

Categories subjects to the Individual Income Tax

Income from interests, dividends

DIVIDENDS

Dividends are generally taxable at a flat rate of 20 percent. However, dividends paid out by companies listed on the Chinese stock exchanges are taxed at rates ranging from 5 to 20 percent depending on holding period.

INTERESTS

Interest income is generally taxable at a flat rate of 20 percent. Certain types of interest income, such as interest on bank savings account deposits, State treasury bonds issued by the Ministry of Finance and approved education savings funds, are exempt from tax.

CAPITAL GAINS

Gains on the transfer of capital assets (such as securities, equity interests, land use rights, buildings, equipment, vehicles, and other assets) are generally taxable at a flat rate of 20 percent. Gains on the transfer of stocks listed on the Chinese stock exchanges are provisionally exempt from tax.

Thank You!



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