



China Individual Income Tax Reform Seminar
Interpretation of draft implementation rules to the new China Individual Income Tax ("IIT")
Law and draft detailed rules to the additional itemized deductions

November 2018
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Agenda

Topics

Overview of China Individual Income Tax ("IIT") Reform

Highlights of the draft implementation rules to the new IIT law

Highlights of the draft detailed rules to the additional itemized deductions

Tea Break

The potential impacts to individuals and companies under China IIT Reform

How companies could plan ahead for China IIT Reform

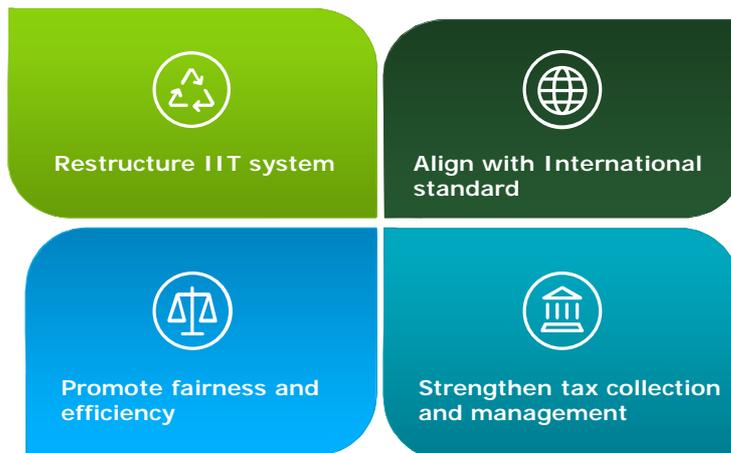
Q&A

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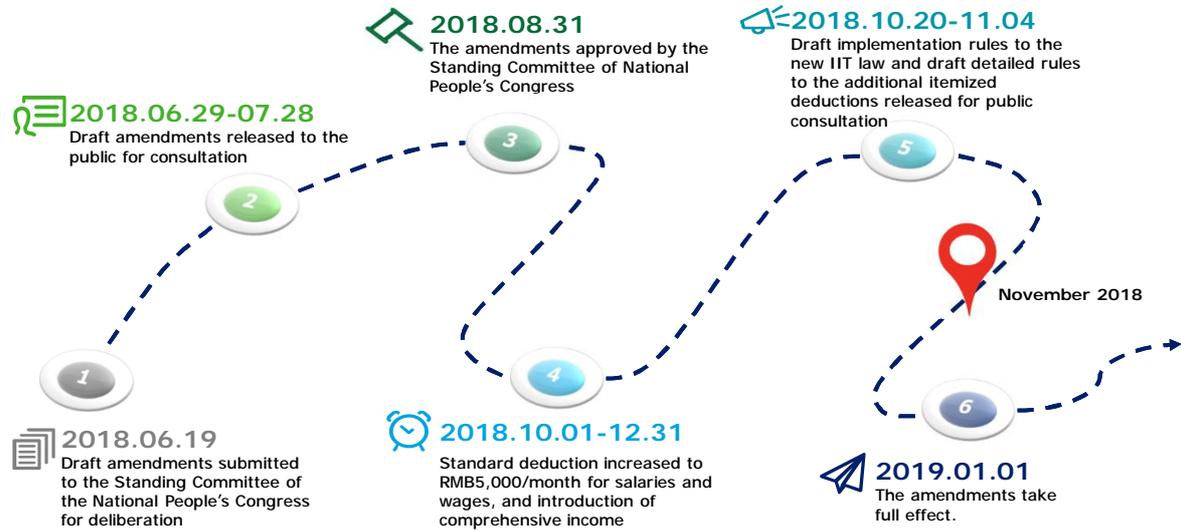


Overview of China Individual Income Tax (“IIT”) Reform

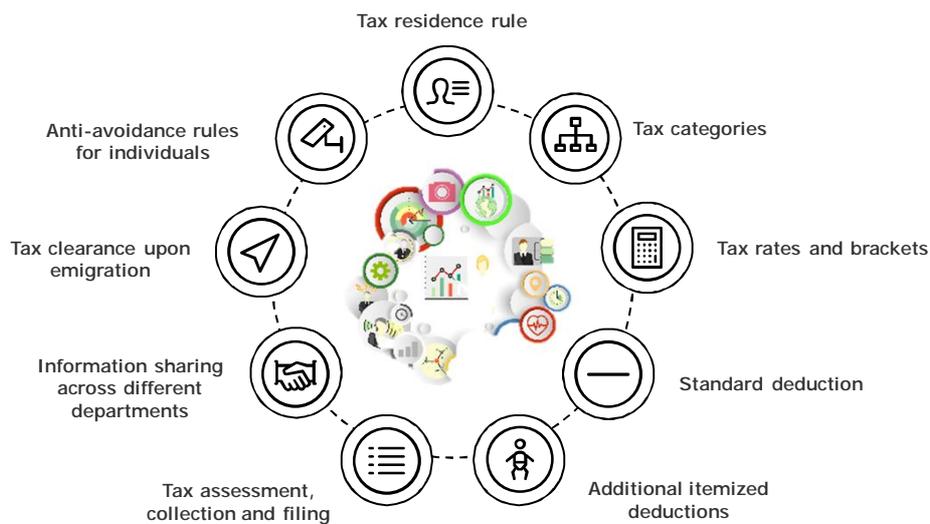
Overview of China Individual Income Tax (“IIT”) Reform



Overview of China Individual Income Tax ("IIT") Reform



Overview of China Individual Income Tax ("IIT") Reform



Highlights of the draft implementation rules to the new IIT law

Definition of "resident" for tax purpose

Current IIT law



New IIT law

No clear definition of "resident" and "non-resident" for tax purposes



China-domiciled individuals



Non-China-domiciled individuals



Non-China-domiciled individuals who reside in China for one "full" year



Non-China-domiciled individuals who reside in China for less than one "full" year



Both China sourced and non-China sourced income are subject to IIT



Only China sourced income is subject to IIT

Introduces the definition of "resident" and "non-resident" for tax purposes

Resident



China-domiciled individuals



Non-China-domiciled individuals who stay in China for **183 days** or more in a calendar year



Both China sourced and non-China sourced income are subject to IIT

Non-resident



Non-China-domiciled individuals

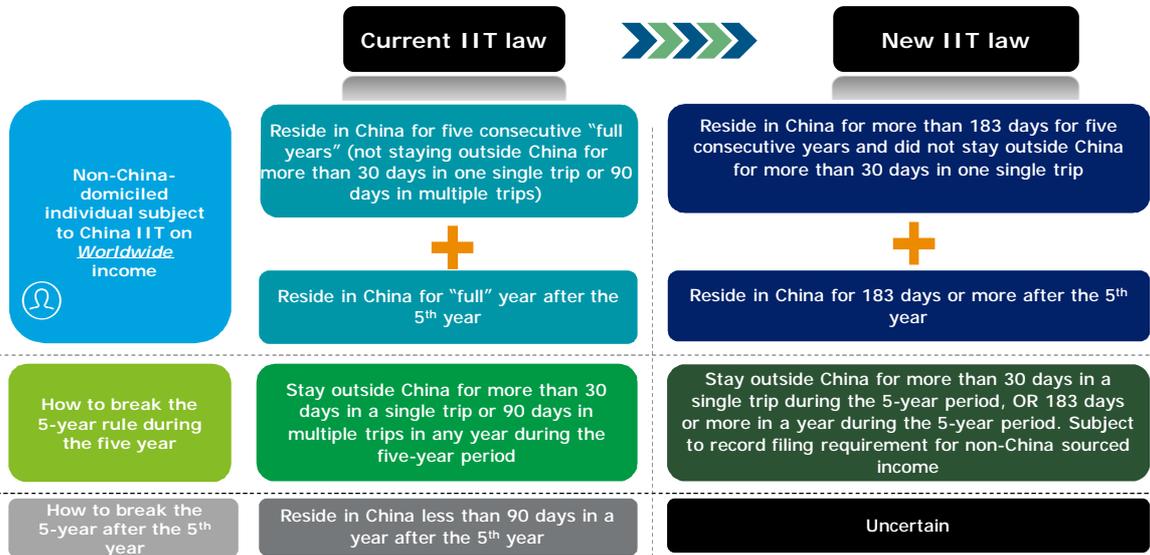


Non-China-domiciled individuals who stay in China for less than **183 days** in a calendar year



Only China sourced income is subject to IIT

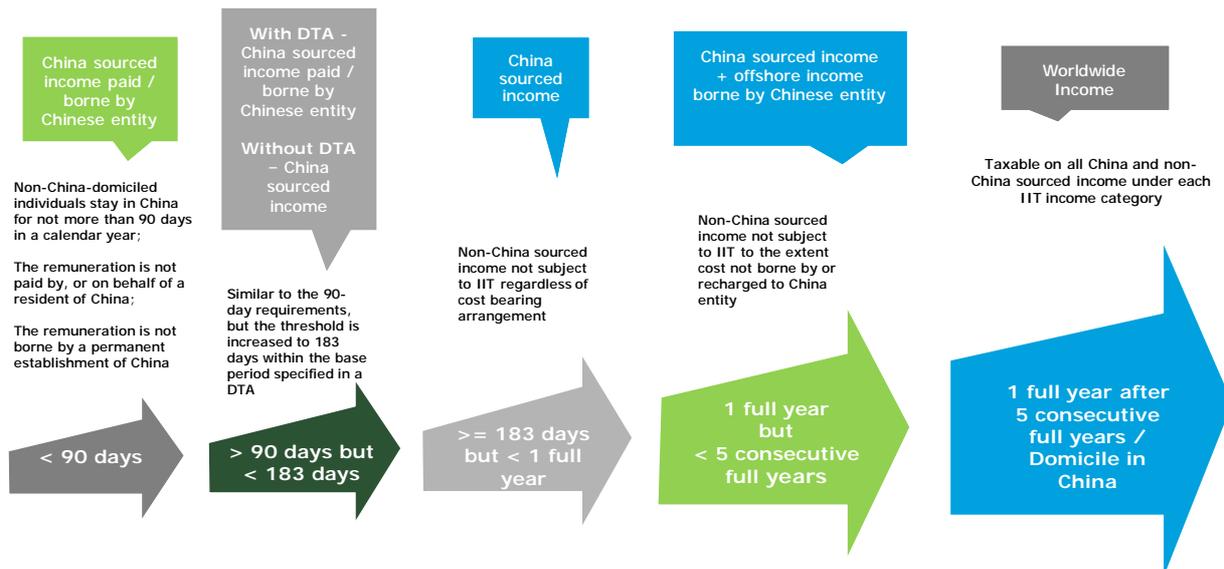
Change of "Five-year rule"



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Chargeability to China Individual Income Tax ("IIT") – Current Rule



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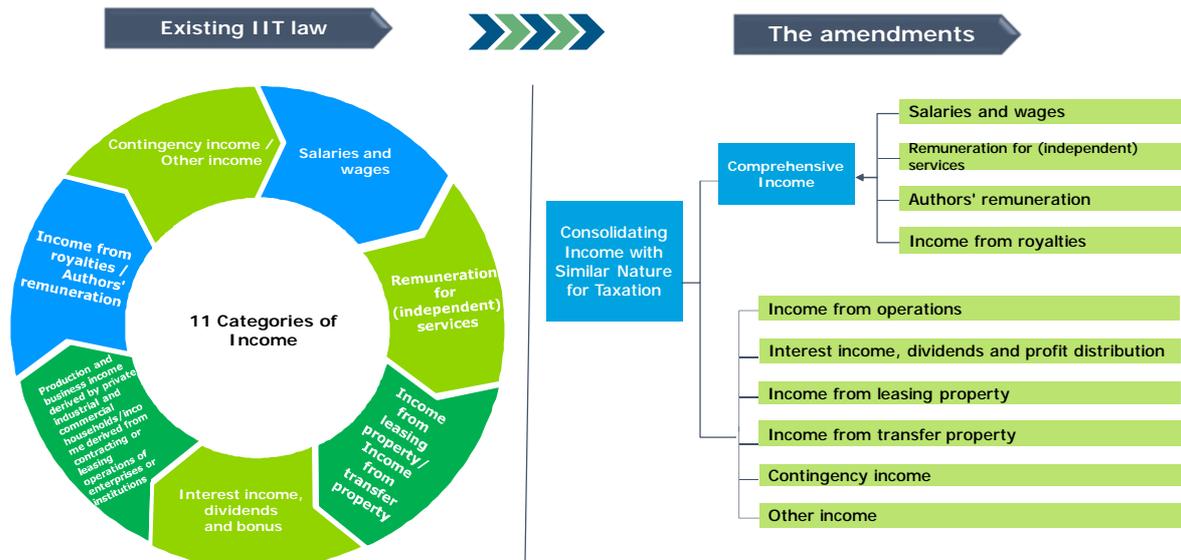
Chargeability to China Individual Income Tax ("IIT") – New Rule



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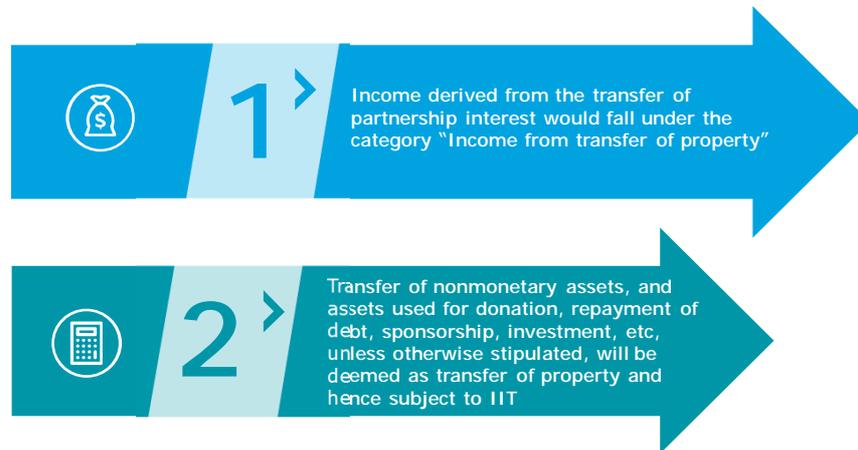
Consolidation of various categories of income into "comprehensive income"



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Transfer of partnership interest and Deemed sale rule



Tax rates and brackets

Tax Rates (Existing IIT law)	Categories	Tax Rates (The amendments)
3%-45%	Salaries and wages	<ul style="list-style-type: none"> The lowest 3 brackets (3%, 10%, 20%) broadened; The highest 3 brackets (30%, 35%, 45%) remain unchanged.
20%-40%	Remuneration of services	
20%	Authors' remuneration	
	Income from royalties	
	Comprehensive Income	
5%-35%	Production and business income derived by private industrial and commercial household	<ul style="list-style-type: none"> Lower limit which applies to 35% tax rate increased to RMB500,000.
	Income derived from contracting or leasing operations of enterprises or institutions	
	Income from operations	
20%	Interest, dividends, and bonus	<ul style="list-style-type: none"> Remain unchanged
	Income from lease of property	
	Income from transfer of property	
	Incidental Income	

Tax Filing Timeline



Any tax withholding agent	Tax withholding
Yes	Withholding agent to conduct IIT withholding by the 15 th of the following month
No	Taxpayer files tax via self-reporting by the 15 th of the following month
-	Taxpayer to settle estimated tax payment by 15 th after the month/or quarter ends
Yes	Withholding agent to conduct IIT withholding by the 15 th of the following month
No	Taxpayer files tax via self-reporting by the 15 th of the following month

Annual Tax Reconciliation

Annual Reconciliation Requirement

- 1 Receiving comprehensive income from two or more sources, and the total comprehensive income net of itemized deductions is at least RMB60,000
- 2 Receiving independent services income, author's remuneration and/or royalties; and total income for the above net of itemized deductions is at least RMB60,000
- 3 IIT withholding on comprehensive income are less than the IIT payable in the relevant tax year
- 4 Income from operations

Authorization

- 4 Taxpayer is allowed to authorize the withholding agent or other party to handle and file the annual return on the individual's behalf

Apply for Tax Refund

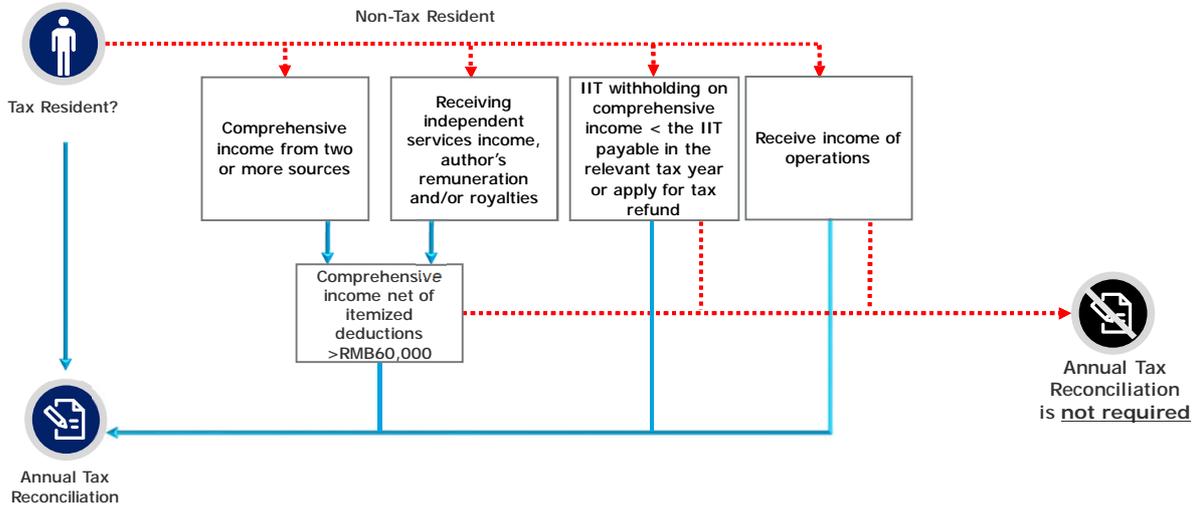
- 2 Taxpayer should comply with the annual filing requirement in order to request for tax refund
- 3 Provide China bank account details for refund processing

Uncertainty in tax residency

- 3 File and pay IIT as non resident tentatively; with his/her annual filing obligation determined after year-end

Annual Filing and Tax Reconciliation

 Yes
 No



Foreign Tax Credit



Tax Calculation

- q For income taxed under the categories of "comprehensive income or "business operation income", the draft implementation rules provide that domestic and foreign-sourced income would be aggregated respectively for resident individual IIT assessment purposes.
- q For other categories of income, domestic and foreign-source income would be assessed separately.

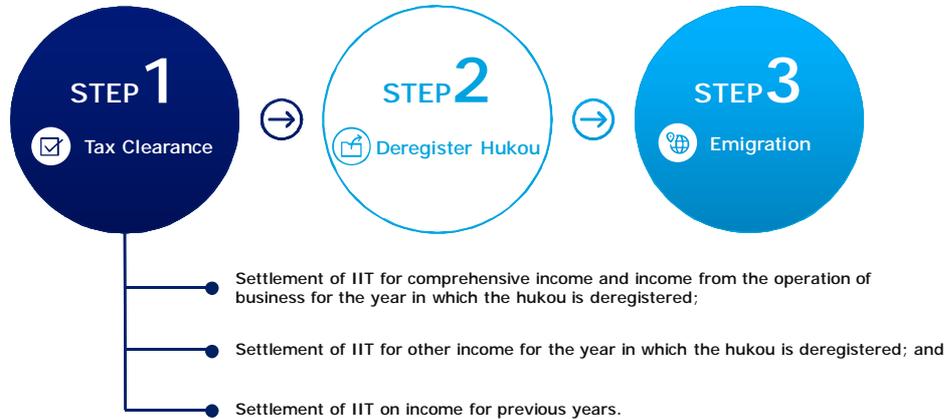


Requirement

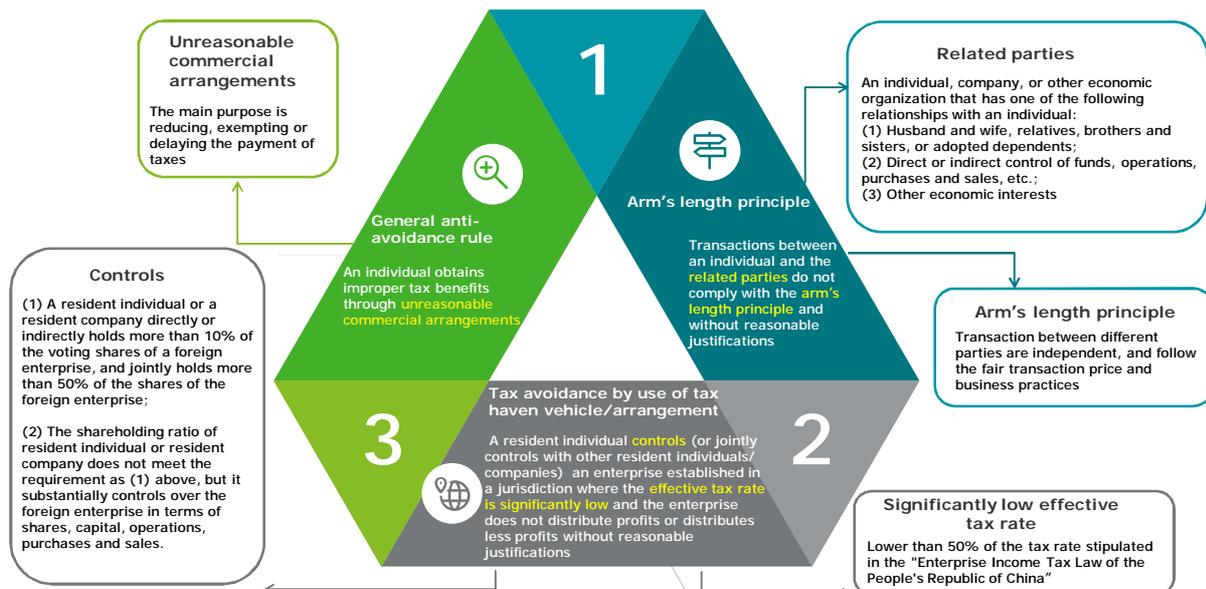
- q The foreign tax credit ("FTC") would still be calculated on a "per country (territory)" basis
- q Unused FTC would be subject to five year carry-forward.
- q Taxpayer should provide foreign tax return and receipt to support FTC claim.

Tax Clearance upon Emigration

A taxpayer is required to settle his or her IIT liabilities before the individual can deregister his or her Chinese household registration (hukou) for emigration purposes.

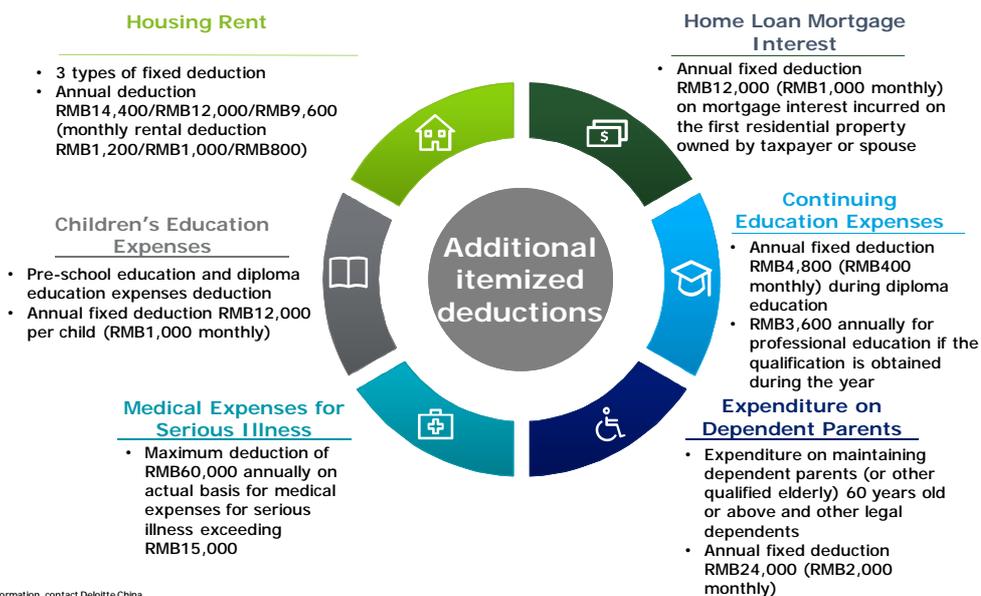


Anti-avoidance Rules



Highlights of the draft detailed rules to the additional itemized deductions

Draft detailed rules to the additional itemized deductions



Draft detailed rules to the additional itemized deductions

	Deductible Amount	Person who Claim Deduction	Supporting Documents	Deduction Timing
 Children's Education Expenses <ul style="list-style-type: none"> Pre-school education Diploma education 	Annual deduction RMB12,000 per child (RMB1,000 monthly)	Parents claim 50% respectively or either one claims entirely	Not applicable	Monthly withholding or annual reconciliation
 Continuing Education Expenses <ul style="list-style-type: none"> Diploma continuing education Professional qualification continuing education 	<ul style="list-style-type: none"> Diploma: Annual deduction RMB4,800 (RMB400 monthly) Professional qualification: Annual deduction RMB3,600 	<ul style="list-style-type: none"> Diploma: Taxpayer (or parents claim children's education expenses) Professional qualification: Taxpayer 	Not applicable	<ul style="list-style-type: none"> Diploma: Monthly withholding or annual reconciliation Professional qualification: Annual reconciliation in the year of obtaining the qualification
 Medical Expenses for Serious Illness <p>The medical insurance system records expenses that are personally borne by the taxpayer for more than RMB 15,000.</p>	Maximum deduction of RMB60,000 annually on claim basis	Taxpayer	Medical payment receipts (original or photocopy)	Annual reconciliation
 Home Loan Mortgage Interest <p>Mortgage interest incurred on the first residential property owned by taxpayer or spouse</p>	Annual deduction RMB12,000 (RMB1,000 monthly)	Taxpayer or spouse should decide who will claim	Loan statement and mortgage interest statement	Monthly withholding or annual reconciliation
 Housing Rent <p>Rental cost of taxpayer and spouse who do not have housing in the primary working city, and rent a place in the city.</p>	<ul style="list-style-type: none"> 3 types of fixed deduction (varies depending on the housing location) Annual rental deduction RMB14,400/RMB12,000/RMB9,600 (monthly rental deduction RMB1,200/RMB1,000/RMB800) 	<ul style="list-style-type: none"> Taxpayer or spouse should decide who will claim (If the primary working city is the same) Taxpayer and spouse claim respectively (If the primary working city is different) * Cannot claim home loan mortgage interest deduction and deduction for housing rent at the same time 	Lease agreement	Monthly withholding or annual reconciliation
 Expenditure on Dependent Parents (or other qualified elderly) <p>Expenditure on maintaining dependent parents 60 years old or above and other legal dependents</p>	<ul style="list-style-type: none"> Single child – Annual deduction RMB24,000(RMB2,000 monthly) Non-single child – Split by taxpayer & siblings : Annual deduction RMB12,000 per taxpayer (RMB1,000 monthly) 	Taxpayer	A written agreement is required for the split deduction	Monthly withholding or annual reconciliation

Draft tax administration requirements of the additional itemized deductions

Information exchange

In the first month which the taxpayer claims the additional itemized deductions, the taxpayer should provide relevant information relating to the additional itemized deductions to the IIT withholding agent (normally the employer) so that the agent could deduct these items from salaries and wages to compute the advance IIT payment to be withheld. If the information changes, it should be updated in a timely manner. The withholding agent should submit the relevant information to the tax authorities as soon as possible.

Cooperation among government agencies

To ensure that the tax authorities are equipped with necessary data for tax collection purposes, other government agencies (e.g. public security, bank, civil affairs, etc.) would be obliged to assist the tax authorities by providing relevant information for additional itemized deductions.

Retention of tax documents

Taxpayers should retain the relevant invoices and payment receipts for future inspection.

Subsequent tax audits

The tax authorities would be empowered to conduct tax audits on the additional itemized deductions.

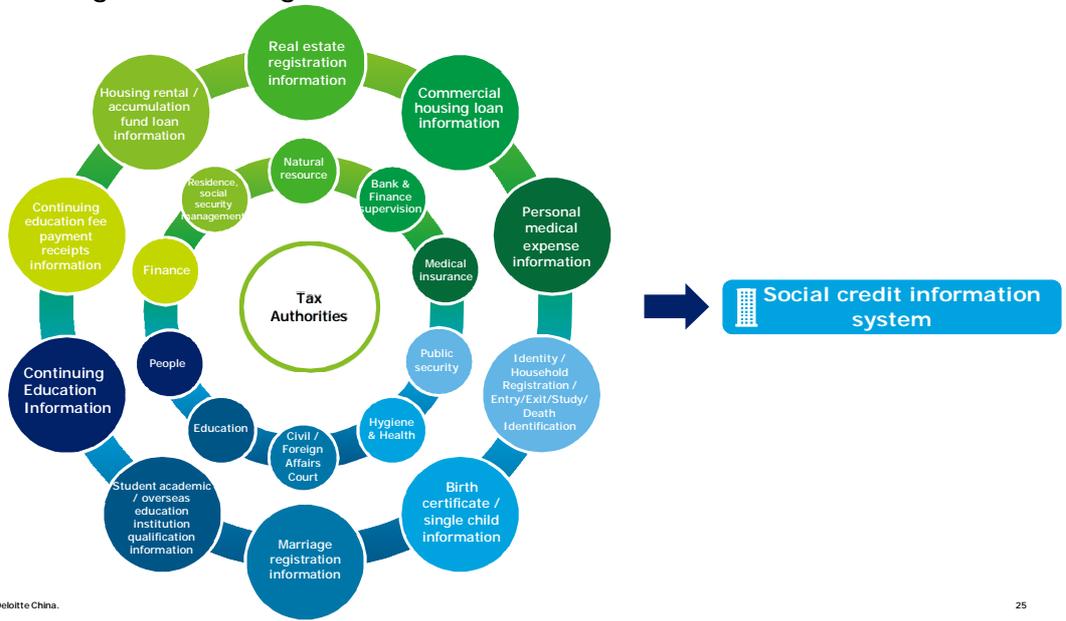
Foreign individuals

Foreign individuals who meet the requirements for claiming children's education expenses, continuing education expenses or home loan mortgage interest/housing rent may choose to claim additional itemized deductions or continue to enjoy the current tax-free fringe benefits on housing, children's education and language training courses.

Intensified Tax Enforcement

Taxpayer refuses to provide or provide false information twice within five years to the tax authorities for inspecting special additional deductions will be included in the taxpayer's social credit record. Punishment shall be implemented by the relevant departments.

Multi-sectoral collaboration and establishment of information exchange system between different government agencies



The potential impacts to individuals and companies under China IIT Reform

The potential impacts under China IIT Reform



Taxpayer (Individual)

Information collection and submission

- Provide relevant information relating to the additional itemized deductions to the IIT withholding agent or tax authorities
- Retain the relevant invoices and payment receipts for future inspection

Real name authentication

- Individuals should provide their tax ID when filing tax return

Annual reconciliation

- Individuals who meet filing requirement should file annual tax reconciliation in a timely manner
- Apply for refund of tax within the annual tax reconciliation due date

Tax clearance upon emigration

- Individuals should settle IIT liabilities before they deregister Chinese household registration (*hukou*) for emigration purposes



Tax withholding agent (Employer)

Information collection and submission

- After receiving the taxpayer's additional itemized deductions information, the withholding agent should submit the relevant information to the tax authorities as soon as possible

Withholding and record keeping

- Advanced withholding and payment of tax in a timely manner, retain relevant tax record for future inspection

Annual reconciliation

- Provide taxpayers with their income and withholding tax information
- Accepting taxpayers' authorization to file the annual tax reconciliation on their behalf

Supervision and verification

- If the taxpayers provide information that is not genuine, tax withholding agent may request them to correct the information. If the taxpayers refuse to do so, tax withholding agent should report to the tax authorities
- Assist tax authorities in verifying additional itemized deductions

The potential impacts under China IIT Reform

How companies could respond to the China IIT Reform



2018.11 – 2018.12

Final implementation rules to the new China IIT law and the final detailed rules to the additional itemised deductions will be released soon

- Remuneration and welfare policies, employee handbooks and other relevant internal policy documents should be updated
- Payroll information, tax withholding, updated record/data management, and internal division of responsibilities
- Internal training (management, Chinese employees, foreign employees, etc.)
- System development, testing and pilot running of automation solutions

2018.10.20

Draft implementation rules to the new China IIT law and the draft detailed rules to the additional itemised deductions were issued for public consultation

- Under the draft rules and maintain adequate internal communications
- Assess the potential impacts on company and different types of employees, compensation and benefit policies, individual tax filing process, record/data management
- Individual taxes, social security compliance health checks and risk assessments
- Determine company strategies in response to the IIT reform
- Introduce technical support for automation solutions

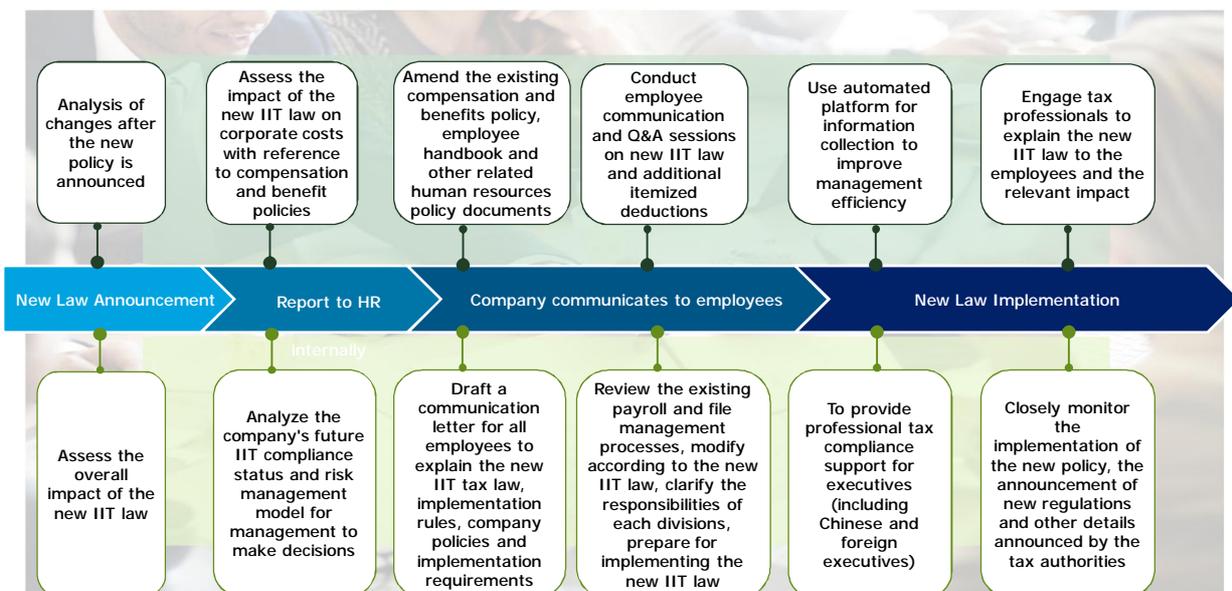
2019.01.01

Full implementation of the new China IIT law

- Establish new internal process and training
- Implement automated solution system, automated additional itemized deductions information collection
- Follow up with employees for their questions and provide annual tax filing assistance

How companies could plan ahead for China IIT Reform

How companies could plan ahead for China IIT Reform



"Digi IIT" automation platform

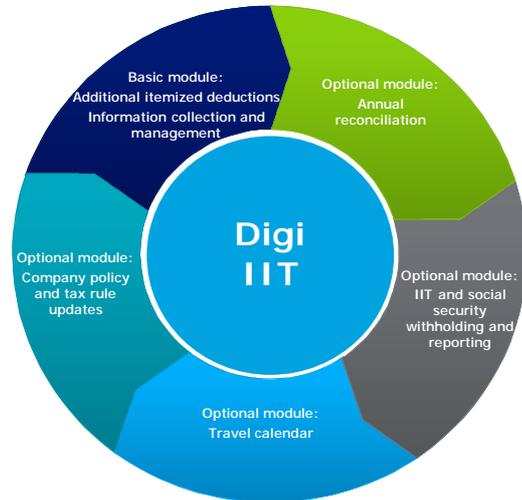
Basic business modules and standard solutions

"Digi IIT" is an automated application that assists companies and employees in **collecting and managing information for additional itemized deductions**. "Digi IIT" would mark a new era in managing tax reporting data efficiently and intelligently.



Other optional modules and customized solutions

"Digi IIT" can assist in monthly IIT and social security calculation and reporting, annual reconciliation, management of foreigner individuals' China entry and exit record in other optional modules. Depending on the companies' budget, security, data confidentiality and internal control processes, other customised modules can be tailored-made to meet different business needs.



"Digi IIT" automation platform Design Concept

Ø Automatic and efficient

Automatic verification of massive data, one-click generation of various reports, meet various reporting requirements, powerful reminder function to ensure no omissions

Ø Archive

Reliable electronic archive, comprehensive and complete retention of historical data, support for various query methods

Ø Cost efficient

Free up internal resources from cumbersome data entry, verification and calculation process, effectively saving labour costs

Ø Flexible and convenient

Support mobile/PC user, can customise the existing system of companies to match with reporting system of tax authorities, each module can be separated and applied flexibly.

Ø Privacy protection

Various technical and restrictive protection to protect the private information of company and employees

Ø Risks and opportunities

Support data analysis and red flags, self-checking by the companies before inspection by tax authorities, assist budget planning and seek future opportunities



Video presentation

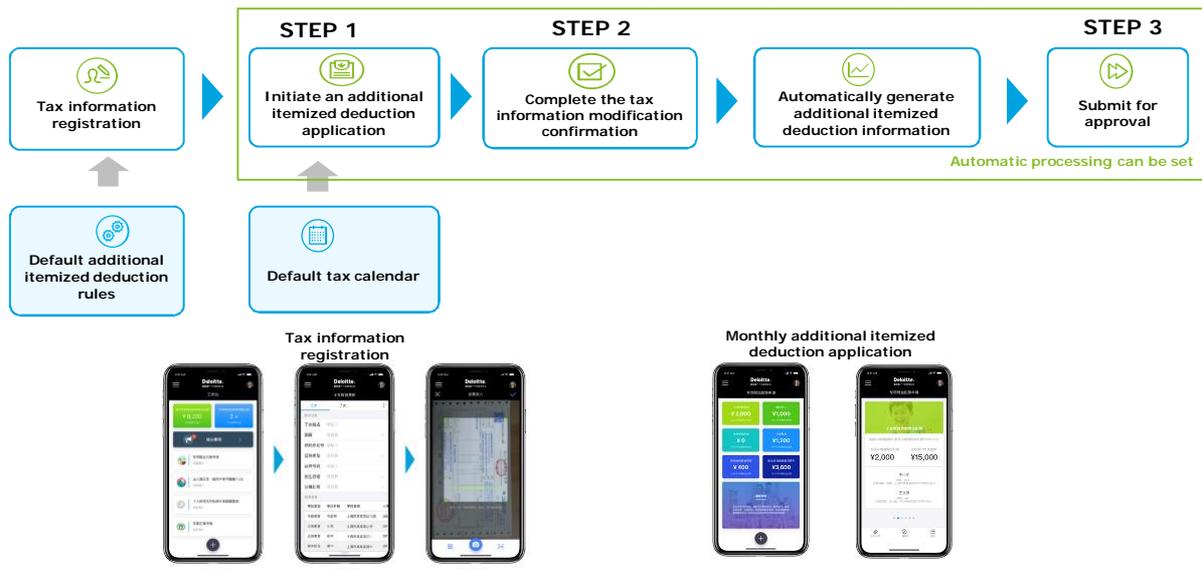


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Employee management process

Quickly generating additional itemized deductions information for application in just three easy steps per month



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* The above contents are only examples of design effects. The final system interface may differ from the above examples depending on the selected business function module.

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Employer management process

"Digi IIT" provides an integrated function for verification and summarization of additional itemized deduction application



Additional itemized deduction application pending review



Verification of additional itemized deduction application



Summarise export data



Real-time statistical analysis



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Q&A

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