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Germany: Abolishment of solidarity surcharge as of 2021

What is the update?

In 1995, the currently-still-existing solidarity surcharge was introduced as a temporary supplementary tax in order to finance the significant costs of the German reunification, which took place on October 3, 1990.

The solidarity surcharge is currently payable by every income or corporate taxpayer. It amounts to 5.5 percent of the income/corporate tax liability and led to additional public revenues of approximately 18.9 billion euros in 2018.

For years, there has been a political debate on whether the solidarity surcharge should be abolished, including several trials at the Federal Constitutional Court about the legitimacy of the solidarity surcharge.

In August 2019, Germany's Federal Minister of Finance introduced a bill, which should abolish the solidarity surcharge for 90 percent of German taxpayers. For 6.5 percent of taxpayers, the payable amount will at least decrease, and only the remaining 3.5 percent of the top earners will continue to pay the full amount of the solidarity surcharge. Although the Federal Cabinet passed the bill on August 21, 2019, there are still discussions and legal doubts about the permissibility of a partial abolishment of the solidarity surcharge. An expert legal opinion ordered by members of the Federal Parliament just concluded that the solidarity surcharge must be abolished for all taxpayers after 2019, as it is now no longer legitimate to levy a surcharge that was originally only introduced as a temporary supplementary tax.

Deloitte's view

Now, almost 30 years after the German reunification, the abolishment of the solidarity surcharge is overdue in the eyes of many. Therefore, the initiative of the German Federal Minister of Finance to abolish the solidarity surcharge for a significant part of the German taxpayers is a welcome step in the right direction, although it would turn the solidarity surcharge into what many consider a "rich man's tax." However, it remains to be seen if the bill in its current form can make its way through the legal procedure, in particular through the Federal Parliament.

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People's Republic of China: IIT rules to enhance tax compliance

What is the update?

China's National Development and Reform Commission (NDRC) and the State Taxation Administration (STA) jointly issued Notice No. 860 on 20 August 2019, which enhances the individual income tax (IIT) credit system to promote compliance by individual taxpayers.

A broad reform of the IIT law became effective on 1 January 2019, with significant changes to individual taxpayer compliance, including annual filing obligations and issuance of tax ID numbers. Under Notice No. 860, an individual's IIT "reputation" will be assessed and used for both rewards and penalties, similar to the "social credit system" – an innovative vision of using modern technologies to monitor, control and steer market participants already used by the government in other economic and social sectors of society.

Enhancement of IIT credit management

The STA will develop standard commitment letters for individual taxpayers to include with their IIT returns and relevant information forms. Taxpayers must pledge that they are responsible for the authenticity, accuracy, and completeness of the information submitted to the STA by signing the applicable commitment letter.

The STA will set up and maintain a national database to collect and maintain taxpayers' IIT information, such as reporting status, itemized deductions, and noncompliance records. Each taxpayer will be assigned a unique ID that identifies him or her in the national database. The STA and other government agencies will use this unique ID to evaluate taxpayer compliance status and other relevant data.

If an individual is identified as having violated the IIT law (*e.g.*, evading IIT), the individual will be designated as such and will be subject to penalties. In cases of serious violations (*e.g.*, evading IIT by more than RMB 100,000), the individual will be included on a publicized blacklist (*i.e.*, a list of serious offenders) and relevant information about the individual will be shared among government agencies.

Joint incentive on compliance

To encourage tax compliance, a taxpayer with sound IIT compliance records may enjoy enhanced services (*e.g.*, "green paths") from various government agencies. An individual included on the blacklist, however, may be subject to stricter reviews or restrictive measures from various government agencies. For example, the government would likely spend more time reviewing materials submitted by a blacklisted individual.

Protection of information security and individual rights

Tax authorities have an obligation to protect the tax credit information of individual taxpayers. As a result, access to the national database will be limited to tax management teams.

Even if an individual taxpayer has a record of noncompliance, the individual may be able to restore his or her IIT credit rating by first rectifying the noncompliance violations within the prescribed timeframe and then participating in certain restorative activities, such as attending educational sessions on IIT credit rating.

Deloitte's view

With intensified enforcement under IIT reform, individual taxpayers need to ensure they understand the changes to the rules and the steps needed for compliance. The new IIT credit system undoubtedly will increase the cost of violations. In addition to administrative penalties and financial costs, taxpayers will also face the risk of personal credit degradation and multidepartmental joint penalties for any violations.

Individual taxpayers, especially high-income individuals with considerable assets and complex tax situations, should dedicate extra attention to their IIT compliance status and their tax credit rating to mitigate the negative impact of tax violations on their personal and family wealth. Additionally, multinational companies currently operating in China should be aware of this change and remind their local senior executives, expatriates, and locally hired foreigners working in China to be fully compliant with the relevant rules in the future.

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Poland:
New tax-free amount for individuals under 26 years old

What is the change?

As of 1 August 2019, up to PLN 35,636.67 in employment income and income derived under contracts of mandate (*i.e.*, civil law contracts for services performed personally) by individuals under age 26 is free of personal income tax.

As of 1 January 2020, the annual tax-free limit for individuals under age 26 is PLN 85,528.00. Exemption is applicable only to selected sources of income that is taxable according to progressive tax rates, whereas some other sources (*e.g.*, benefits paid from social security or business activity income), as well as income subject to taxation at flat rates and lump-sum taxation, is excluded from the new tax relief. Social security and health care contributions will remain due on this income, unless specific exemptions apply (*e.g.*, the exemption for students).

What does the change mean?

The new regulations will affect both employees and contractors under age 26 and companies who pay remunerations to them.

- **Implementation timeframe:** The new regulations in force as of 1 August 2019.
- **Who is affected:** Individuals under age 26 who earn income from employment and contracts of mandate and entities paying this remuneration to them.
- **Business impact:** Tax remitters (*i.e.*, companies) need to quickly adjust their payroll systems to reflect the changes. They will also be obliged to prepare annual wage statements in accordance with the new rules by January 2020. The areas to adjust include the following:
    - **Tax advance calculations in 2019:** Taxes will be withheld on income, unless the taxpayer requests to cease withholdings.
    - **Tax advance calculations in 2020:** No taxes will be withheld on income, unless withholdings are requested by the taxpayer.
    - **Monitor age:** Companies will be obliged to monitor employees'/contractors' ages to ensure proper tax withholdings.
    - **Impact on annual wage statements:** Annual wage statements will disclose separate social security contributions paid on taxable and tax-exempt income, as well as depict income divided into two parts – a taxable component and a tax-exempt component.
    - **Cost of earnings deductions:** Specific rules will apply to the calculation of cost of earnings deductions, especially the 50-percent cost of earnings deduction on copyright income, where the limit for the new exemption will need to be monitored jointly with the annual cost-of-earnings limit.

Deloitte's view

Companies hiring employees or contractors under age 26 should prepare for the changes in calculating payroll for these employees, especially for monitoring their eligibility for relief and in filing annual wage statements (the rules are different for a transition period from August through December 2019 and for the ongoing full years starting from 2020).

Since the new regulations will be applicable to a portion of the current tax year (*i.e.*, starting in August 2019), the timeframe for adopting the new rules was very short.

Note: The new tax relief applies not only to Polish employees and contractors, but also to individuals under age 26 who work in Poland under foreign contracts (*i.e.*, seconded to work in Poland by foreign companies).

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Poland:
Decrease in PIT rate and increase in cost of earnings deductions

What is the change?

Lower tax rate for income under PLN 85,528: The following changes will be made to the basic personal income tax (PIT) rate for income under PLN 85,528:

- As of 1 October 2019, the PIT rate will decrease to 17 percent, down from the previous 18 percent.
- The new PIT rate will be applicable to tax advances remitted or paid from October 2019 onward.
- Beginning in 2020, the tax scale will include the new 17 percent PIT rate.
- In 2019, a temporary tax scale will be introduced with a 17.75 percent PIT rate for income under PLN 85,528.

The PIT rate for incomes above PLN 85,528 will not be reduced; instead, the rate for higher incomes will remain at its current level (*i.e.*, 32 percent).

This change will apply to all income taxed at progressive tax rates. However, it will not affect lump-sum taxation regimes (*e.g.*, the 20-percent lump-sum tax on nonresident earned income from personal service contracts, management contracts, or management board fees).

Increase in cost of earnings deductions: Simultaneously, as of 1 October 2019, higher cost of earnings deductions will apply to employment and managerial contracts, as well as to taxes paid by resident management board and supervisory board members.

Monthly cost of earnings deductions for basic costs will rise to PLN 250 (an increase from PLN 111.25) for those who live in the same city or town they work in, and PLN 300 (an increase from PLN 139.06) for those who work in a city or town they do not live in. Annual limits will increase as well, with temporary limits applicable to 2019.

What does the change mean?

Implementation timeframe: The new regulations will come into force as of 1 October 2019.

Who will be affected: Tax residents and nonresidents, including employees, contractors, managers, board members (excl. some non-resident contractors / managers / board members subject to flat 20 percent tax rate), self-employed individuals, and all other individuals who earn income subject to progressive tax rates, as well as companies that pay remuneration to any of these applicable tax residents and nonresidents.

Business impact: Tax remitters (*i.e.*, companies) will need to quickly adjust their payroll systems to reflect the changes in October 2019. They will also be obliged to prepare annual wage statements in accordance with the new rules by 31 January 2020.

Individual impact: Individual net income will increase due to the lower PIT rate (*i.e.*, 17.75 percent in 2019 and 17 percent from 2020 onward) and higher costs of earnings deductions.

Deloitte's view

Polish companies will need to adjust their payroll systems to include these changes. Since the new regulations will be applicable to the last quarter of the current tax year (*i.e.*, starting in October 2019), the timeframe for adopting the new rules is very short. The changes will also affect the incomes of individuals working in Poland under foreign employment contracts.

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Singapore:
Removal of administrative concession for Singapore citizens working overseas

What is the change?

The Inland Revenue Authority of Singapore (IRAS) recently announced the removal of the following administrative concession for Singapore citizens working overseas, effective from Year of Assessment (YA) 2021 (*i.e.*, income year 2020).

Currently, a Singapore citizen is regarded as a tax resident by default. However, under an administrative concession, if the Singapore citizen works overseas for at least six months during the calendar year, he or she may elect to be treated and assessed as a nonresident for tax purposes.

In addition, if such an election is made, the Singapore citizen may qualify for tax exemption as a nonresident short-term visiting employee under Section 13(6) of the Singapore Income Tax Act (SITA), commonly referred to as the "60-day exemption," if he or she travels back to Singapore for work purposes for not more than 60 days during a calendar year.

With effect from YA 2021 (*i.e.*, income year 2020), the administrative concession will no longer be available.

Impact of the change

Employee: With the removal of the administrative concession, Singapore citizens who work outside of Singapore and travel back to Singapore for business purposes can no longer claim the 60 day exemption. Accordingly, the Singapore citizen would be subject to Singapore tax with respect to the employment income attributable to time spent in Singapore for business.

This could potentially increase tax costs for Singapore citizens based overseas for employment. In fact, they may need to explore the possibility of claiming foreign tax credits for Singapore income taxes paid on the same income that is also subject to tax in the country of employment.

Employer: Employers are obligated to submit the Form IR8A or Form IR8E (*i.e.*, Annual Return of Employee's Remuneration) to report the employment income of Singapore citizens who work overseas, but who travel to Singapore for business purposes, even for less than 60 days in a calendar year.

Accordingly, employers and employees must track business travel and maintain sufficient records to ensure they are compliant with tax reporting requirements. If an employee is tax equalized to Singapore, this may result in an increase in tax costs to the employer, unless it is possible to claim a tax credit in the country of employment for the Singapore tax paid on the same income subject to tax in both countries.

Deloitte's view

Prior to 1 January 2004, the remittance of foreign-sourced income into Singapore by a tax resident individual would be subject to Singapore tax, whereas foreign-sourced income remitted into Singapore by nonresident individuals was not subject to tax. The administrative concession to elect to be assessed as nonresidents for tax purposes was intended to enable Singapore citizens who work overseas to remit their foreign-sourced income (*e.g.*, remuneration from employment earned outside Singapore) into Singapore without attracting any Singapore tax liability.

Since 1 January 2004, the law was changed to enable Singapore tax resident individuals to be tax exempt from the remittance of foreign-sourced income into Singapore (except for foreign-sourced income received through a partnership business in Singapore). For this purpose, the administrative concession to allow Singapore citizens to elect to be assessed as nonresidents for tax purposes will no longer be relevant.

However, the removal of the above-mentioned administrative concession will affect Singapore citizens who work overseas, but travel to Singapore for business purposes. Since these citizens can no longer elect to be treated as nonresidents for Singapore tax purposes, they will also not qualify as nonresident short-term visiting employees, even if they are in Singapore for not more than 60 days during a calendar year. Accordingly, exemption under SITA Section 13(6) will no longer be available to them.

Employers will need to track the business travels of their employees, including Singapore citizens based overseas who may be required to make business trips to Singapore. This is likely to increase the administrative burden on employers to track their employees' travels and result in higher tax compliance costs.

For Singapore citizens who work overseas, to the extent possible, they should ensure that when they travel back to Singapore, it is for only personal reasons and not for business purposes, to mitigate their Singapore tax exposures.

In addition, communications should be made to such employees on the impending changes as the IRAS can impose penalties for the under-reporting income in the event of an audit.

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