

AmCham 2021 CEO Breakfast



China Individual Income Tax (“IIT”) Policy Changes Impacting Foreign Employees/their employer’ Tax Liabilities from 2022

October 13, 2021



Agenda




- 1 Upcoming IIT policy changes from 2022 
- 2 Tax cost analysis 
- 3 Preparing for the upcoming changes 



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Upcoming IIT policy changes from 2022



IIT preferential treatment during the tax reform transition period (Circular 【2018】 No. 164)

- ✓ **Types of preferential treatment:**
 - 1. Non-taxable benefit for foreigners
 - 2. Annual bonus for residents
 - 3. Equity income for residents
- ✓ **Transition period:** 1 January 2019 – 31 December 2021 (3 years)



Non-taxable benefits for foreign individuals

Existing non-taxable benefits applicable to foreign nationals	From 2019 – 2021	2022 onwards	Specific additional deductions
Child education	May choose to claim either the specific additional deductions or the non-taxable benefits	Non-taxable benefits (i.e. child education, rental and language training) will no longer be available. Residents individual may enjoy the specific additional deductions claim in accordance with the regulation	Child Education
Housing rental			Mortgage interest or rental expense
Language training			Continuing education
Home leave		?	Major medical expenses
Relocation			Elderly care
Meals and laundry			

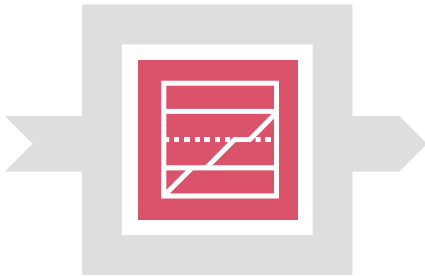
- Only foreign nationals who qualify as residents may choose to enjoy the specific additional deductions claim;
- The selection between non-taxable benefits scheme and specific additional deductions scheme cannot be changed during the same tax year;
- After the 3-year transition period, non-taxable benefits (i.e. child education, rental and language training) will no longer be available. Need to await for more details as to whether other non-taxable items (i.e. home leave, relocation and meal and laundry) would continue to be available after the transition period.



Preferential tax treatment on annual one-off bonus

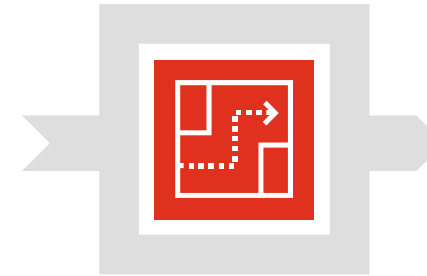
During the transition period
(1 January 2019 – 31 December 2021)

**Applicable for
tax residents**



- ❑ Tax resident individuals may elect not to include the annual one-off bonus in the comprehensive income and calculate the IIT separately.
- ❑ Divide the annual one-off bonus by 12 and apply the converted monthly comprehensive income tax rate and quick deduction.
- ❑ Tax resident individuals may also elect to include the annual one-off bonus in the comprehensive income of that year for IIT calculation purpose.

After the transition period
(From 1 January 2022)



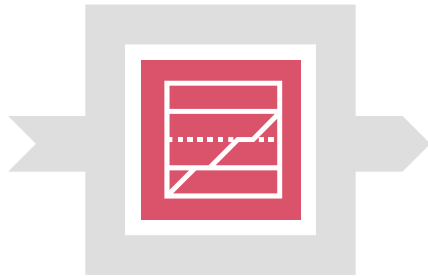
- ❑ Include the annual one-off bonus in the comprehensive income of that year for IIT calculation purpose.



Preferential tax treatment on equity incentive income

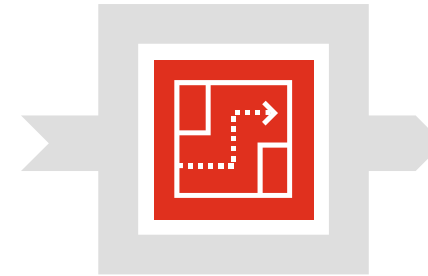
During the transition period
(1 January 2019 – 31 December 2021)

**Applicable for
tax residents**



- Apply to equity incentive incomes qualify for the preferential calculation methods under previous policy.
- Not to include the equity incentive income in the comprehensive income and calculate the IIT separately.
- The full amount is subject to the annual comprehensive income tax rate table
- Tax payable = Equity incentive income (consolidated amount in a tax year) x tax rate – quick deduction – tax paid

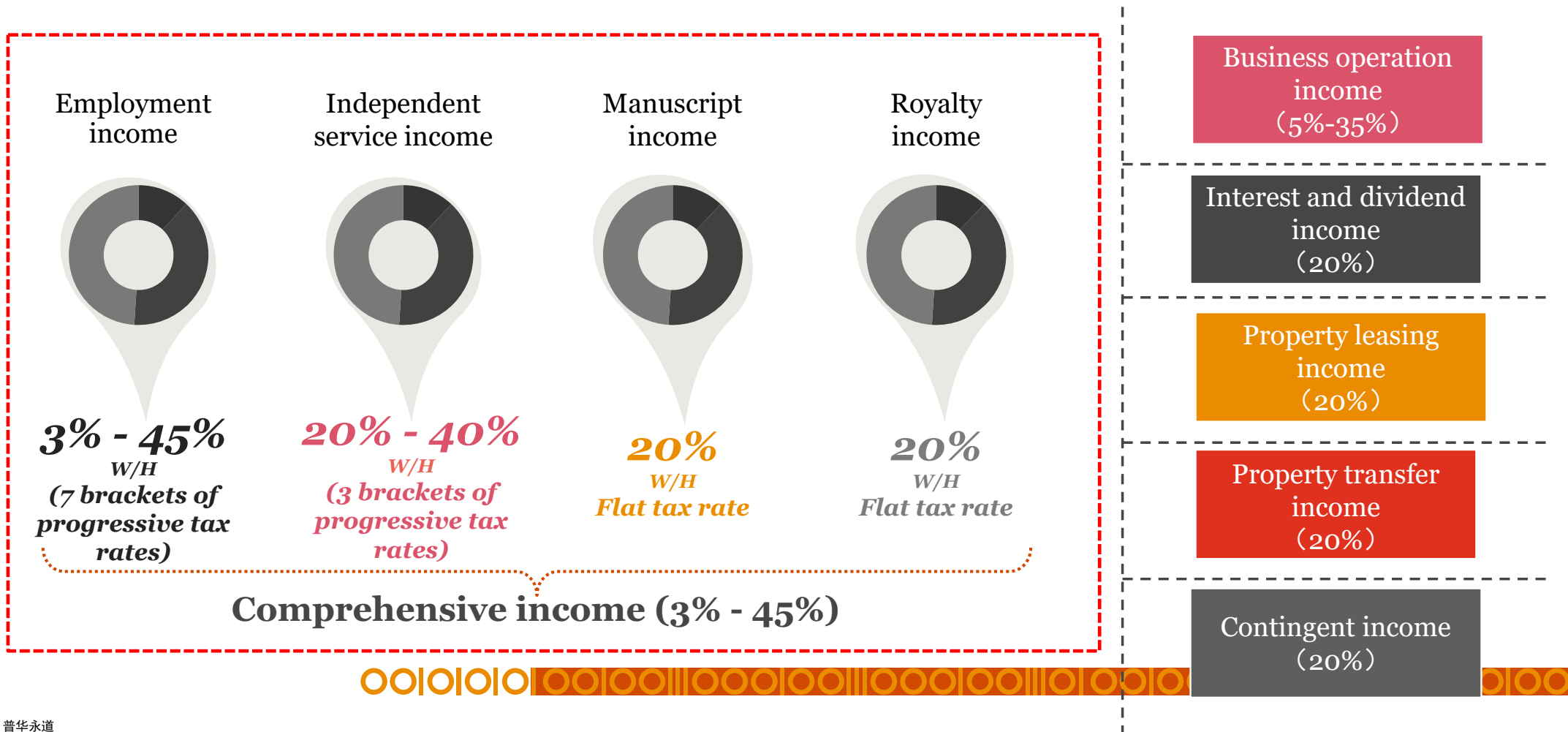
After the transition period
(From 1 January 2022)



- To be determined



Current aggregate taxation system



Annual tax rate table (effective from October 2018)

Bracket	Annual taxable income (RMB) where IIT is borne by employee	Annual taxable income (RMB) where IIT is borne by employer	(%)	Quick deduction (RMB)
1	Not over 36,000	Not over 34,920	3	0
2	Over 36,000 to 144,000	Over 34,920 to 132,120	10	2,520
3	Over 144,000 to 300,000	Over 132,120 to 256,920	20	16,920
4	Over 300,000 to 420,000	Over 256,920 to 346,920	25	31,920
5	Over 420,000 to 660,000	Over 346,920 to 514,920	30	52,920
6	Over 660,000 to 960,000	Over 514,920 to 709,920	35	85,920
7	Over 960,000	Over 709,920	45	181,920



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Tax Cost Analysis

IIT on Non-taxable benefits and annual bonus before vs. after 1 January 2022

Case 1: Jason is a US employee (non-domiciled) working for Company A and is provided non-taxable benefits on reimbursement basis. Starting 1 January, 2022, the non-taxable benefits will no longer be applicable, but will be replaced by specific additional deductions (SAD). Jason's tax liability before vs. after 1 January 2022 is illustrated below (only standard deduction of RMB 60,000 is considered):

Gross Package (IIT is borne by employee)	Before 1 January 2022	After 1 January 2022
Annual gross income:	1,850,000	1,850,000
Base salary	1,001,000	1,001,000
Annual bonus	299,000	299,000
Housing	350,000	350,000
Child education	200,000	200,000
SAD - housing		(18,000)
SAD - child education		(12,000)
IIT on salary	243,430	
IIT on annual bonus	58,390	
Total tax liability	301,820	610,080
Tax liability		↑ 102%



IIT on Non-taxable benefits and annual bonus before vs. after 1 January 2022

Case 2: Jason is a US employee (non-domiciled) working for Company A and is provided non-taxable benefits on reimbursement basis. Starting 1 January, the non-taxable benefits will no longer be applicable, but will be replaced by specific additional deductions (SAD). Jason's tax liability before vs. after 1 January 2022 is illustrated below (only standard deduction of RMB 60,000 is considered):

Net Package (IIT is borne by employer)	Before 1 January 2022	After 1 January 2022
Annual net income:	1,850,000	1,850,000
Base salary	1,001,000	1,001,000
Annual bonus	299,000	299,000
Housing	350,000	350,000
Child education	200,000	200,000
SAD - housing		(18,000)
SAD - child education		(12,000)
IIT on salary	439,145	
IIT on annual bonus	96,120	
Total tax liability	535,265	1,109,236
	Tax liability	107%



IIT on annual bonus for tax residents before vs. after 1 January 2022

Case 3: Mr. Wang, Mr. Zhang and Mr. Li is employed by Company A as a general staff, middle level management and executive. Their annual compensation includes salary and annual bonus. Starting 1 January 2022, the annual bonus should be combined with annual comprehensive income for China IIT calculations. Their tax liability changes are illustrated as below (only standard deduction of RMB 60,000 is considered):

Mr. Wang

	Before 1 January 2022	After 1 January 2022
Annual gross income:	200,000	200,000
Base salary	164,000	164,000
Annual bonus	36,000	36,000
IIT on salary	7,880	
IIT on annual bonus	1,080	
Total tax liability	8,960	11,480
Tax liability increased		28% ↑

Mr. Zhang

	Before 1 January 2022	After 1 January 2022
Annual gross income:	500,000	500,000
Base salary	360,000	360,000
Annual bonus	140,000	140,000
IIT on salary	43,080	
IIT on annual bonus	13,790	
Total tax liability	56,870	79,080
Tax liability increased		39% ↑

Mr. Li

	Before 1 January 2022	After 1 January 2022
Annual gross income:	1,000,000	1,000,000
Base salary	700,000	700,000
Annual bonus	300,000	300,000
IIT on salary	139,080	
IIT on annual bonus	58,590	
Total tax liability	197,670	243,080
Tax liability increased		23% ↑



IIT on annual bonus for non-domiciled individuals as tax resident vs. non resident

Case 4: Peter is a US employee (non-domiciled) working for Company A and travels frequently to overseas for business. The HR needs to estimate and confirm his China tax residency status (whether hit 183 days) for each tax year. Starting 1 January 2022, the annual bonus should be combined with annual comprehensive income for China IIT calculations. Peter's tax liability as tax resident vs. non-resident is illustrated below (only standard deduction of RMB 60,000 is considered):

	Before 1 January 2022		After 1 January 2022	
	Resident	Non-resident	Resident	Non-resident
Annual gross income:	900,000	900,000	900,000	900,000
Base salary	603,000	603,000	603,000	603,000
Annual bonus	297,000	297,000	297,000	297,000
IIT on salary	109,980	109,980		109,980
IIT on annual bonus	57,990	62,640		62,640
Total tax liability	167,970	172,620	208,080	172,620
Tax liability increased for tax resident			24% ↑	



Preferential tax treatment on multi-month bonus for non-residents

IIT calculation method on multi-month bonus for non-residents

- Not include the multi-month bonus in the comprehensive income and calculate the IIT separately
- Expense deduction not applicable
- Monthly tax rate applied
- IIT Payable = [(Multi-month bonus / 6) x tax rate – quick deduction] x 6
- Applied only once a year



Preferential tax treatment on equity incentive income for non-residents

IIT calculation method on equity incentive income for non-residents

- Not include the equity incentive income in the comprehensive income and calculate the IIT separately
- Expense deduction not applicable
- Monthly tax rate applied
- Tax payable = [Equity incentive income (consolidated amount in a tax year) / 6 x tax rate – quick deduction] x 6 – tax paid

IIT on annual bonus for non-domiciled individuals as tax resident vs. non resident

Case 4: Peter is a US employee (non-domiciled) working for Company A and travels frequently to overseas for business. The HR needs to estimate and confirm his China tax residency status (whether hit 183 days) for each tax year. Starting 1 January 2022, the annual bonus should be combined with annual comprehensive income for China IIT calculations. Peter's tax liability as tax resident vs. non-resident is illustrated below (only standard deduction of RMB 60,000 is considered):

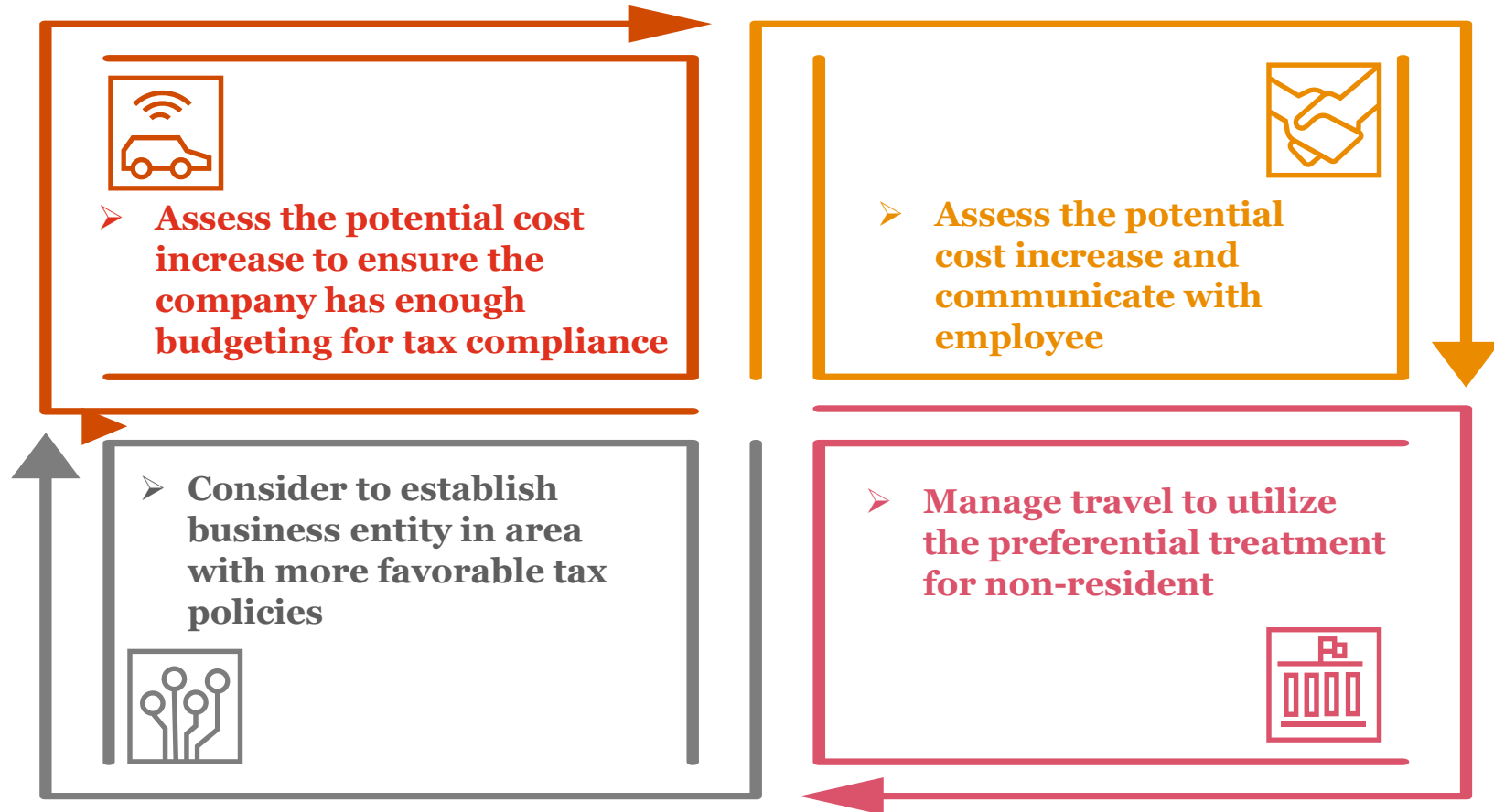
	Before 1 January 2022		After 1 January 2022	
	Resident	Non-resident	Resident	Non-resident
Annual gross income:	900,000	900,000	900,000	900,000
Base salary	603,000	603,000	603,000	603,000
Annual bonus	297,000	297,000	297,000	297,000
IIT on salary	109,980	109,980		109,980
IIT on annual bonus	57,990	62,640		62,640
Total tax liability	167,970	172,620	208,080	172,620
Tax liability increased for tax resident			24% ↑	



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How to Prepare for the Upcoming Changes

Actions to be taken



Summary of preferential tax treatment for special areas

The Greater Bay Area (overseas talents)	Hainan Free Trade Port	New Lingang Area of Shanghai Pilot Free Trade Zone (overseas talents)	Beijing Comprehensive Demonstration Zone (overseas talents)
<ul style="list-style-type: none"> 2019-2024: for high-end talents and talents in short supply working in the 9 cities are entitled to an IIT rebate on their portion of IIT payment exceeding 15% of their taxable income. 	<ul style="list-style-type: none"> By 2025, for high-end talents and talents in short supply, their portion of IIT which exceeds an effective tax rate of 15% are exempted; By 2035, individuals residing in Hainan FTP for 183 days or more during a tax year will be taxed at progressive IIT rates of 3%, 10% and 15% on their comprehensive income and business income derived from Hainan FTP. 	<ul style="list-style-type: none"> The state Council issued an Overall Plan for the New Lingang Area of Shanghai Pilot Free Trade Zone put forward to explore subsidizing overseas talents' IIT. 	<ul style="list-style-type: none"> The State Council issued the "Replies to the Work Plan for Deepening the New Round Comprehensive Pilot of Expand Opening of the Service Industry in Beijing and Constructing the National Comprehensive Demonstration Zone for Expand Opening of the Service Industry" which puts forward to explore subsidizing overseas talents' IIT
<ul style="list-style-type: none"> First taxed, then rebate, need to apply IIT capped at taxable income x 15% 	<ul style="list-style-type: none"> Normal withholding, refund via annual reconciliation (Implementation details to be determined) Effective IIT rate capped at 15% 		

Thank you!

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