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China Annual Individual Income Tax (IIT) Clearance 2019

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Agenda:

Section 1: Who shall make the annual individual income tax (“IIT”) clearance?

Section 2: Basic terms for Annual Individual income tax clearance

Section 3: Cases study

Section 4: Exemption from annual individual income tax clearance

Section 5: Timeline and procedures for annual IIT clearance?

Section 6: Income sourced from overseas

Section 7: Special concerns for foreigners

Section 8: What DSA can help you

Section 1:

Who shall make the annual individual income tax clearance?

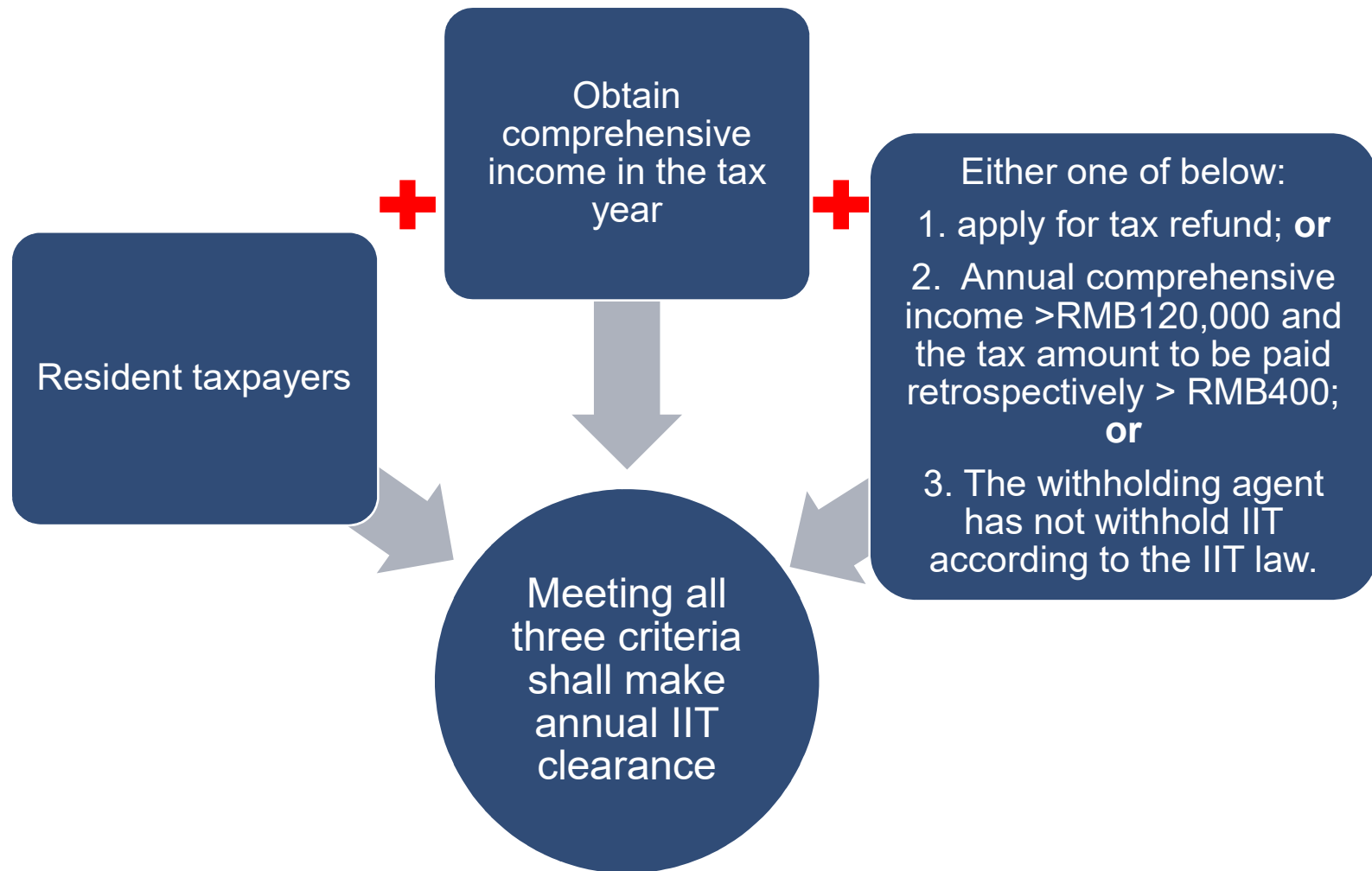


Annual Individual Income Tax (IIT) Clearance

- **What is annual IIT clearance**

- The IIT for resident individuals is collected through advance tax payments withheld and remitted by the payer (if any) on a monthly/transactional basis;
- However, wages and salaries, remuneration for personal services; royalties; and authors' remuneration obtained by resident taxpayer ("Comprehensive Income") in a calendar year shall be combined to calculate the taxable income and apply the tax rate to calculate annual individual income tax;
- Some deductions can only be enjoyed during annual IIT clearance;
- Pay supplementary tax or apply IIT refund if there is gap between the paid tax and the tax payable.

Who shall make the annual IIT clearance



Section 2:

Basic terms for annual individual income tax clearance



Resident Taxpayer & Non-resident Taxpayer

- **Resident Taxpayer**

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

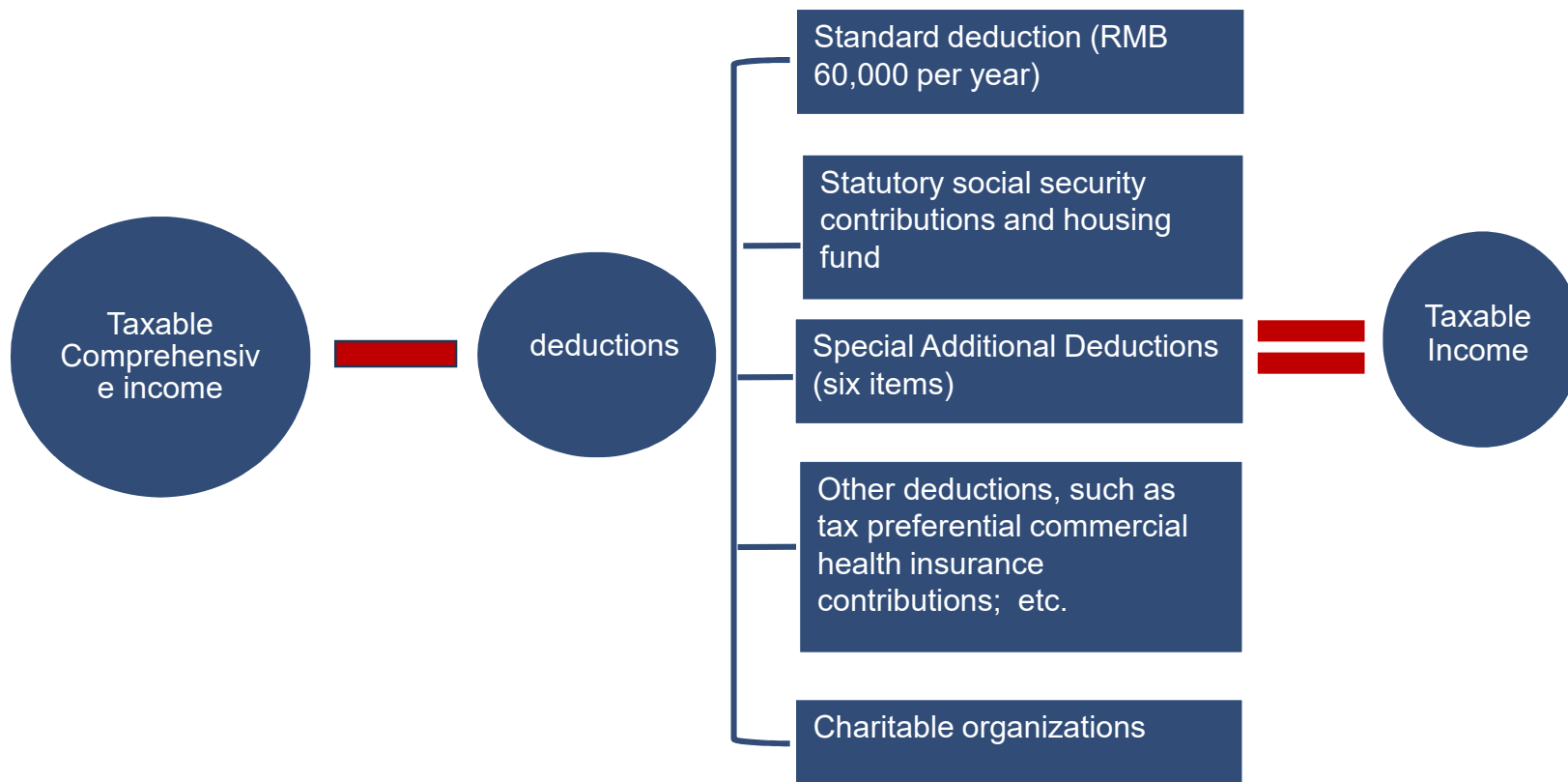
Only Resident Taxpayer is required to make annual IIT clearance!!

- **Non-resident Taxpayer**

- Non-China-domiciled individuals who do NOT reside in China; or
- Non-China-domiciled individuals who stay in China for less than 183 days in a

Tax Calculations for Salaries and Wages (Resident Taxpayer)

- Tax payable/refund for year 2019 = (Taxable income X applicable tax rate – Super deduction) - paid tax for 2019



Comprehensive Income

Categories	Scope	Taxable Income	Applicable Tax Rate
Comprehensive Income (Consolidated)	Wages and Salaries	Full amount (note 1 &2)	3% - 45% progressive rates
	Remuneration for personal Services	Full amount minus 20% expense	
	Royalties	Full amount minus 20% expense	
	Authors' remuneration	(Full amount minus 20% expense)*70%	

Note:

1. For non-domiciled individual who holds positions concurrently in domestic and overseas organizations or only holds position in an overseas organization, the taxable salaries and wages shall be determined based on the individual's PRC workdays.
2. One time bonus for the whole year is not included in comprehensive income if the taxpayer choose not to include in the comprehensive income (i.e choose to file as annual bonus).

Tax rates

Tax Bracket	Annual Taxable Income (RMB)	Advanced withholding Tax Rate(%)	Annual Quick Deduction (RMB)
1	≤ 36,000	3 %	0
2	36,000 to 144,000	10%	2,520
3	144,000 to 300,000	20%	16,920
4	300,000 to 420,000	25%	31,920
5	420,000 to 660,000	30%	52,920
6	660,000 to 960,000	35%	85,920
7	> 960,000	45%	181,920

Specific Additional Deductions

IIT Special Additional Deductions in China			
Item	Applicable scope	Deduction Amount	Deduction method
Children's education expenses	<ul style="list-style-type: none"> Pre-school education Diploma education 	RMB 1,000/month for each child (or RMB 12,000/year for each child)	<ul style="list-style-type: none"> Standard deduction for each kid 50/50 split between parents, or 100% deducted by one parent
Continuing education expenses	<ul style="list-style-type: none"> Diploma education Professional qualification 	RMB 400/month, up to 48 months (or RMB 4,800/year, up to four years) RMB 3,600 in the year when related certificate issued	<ul style="list-style-type: none"> Standard deduction Parent could choose to claim such expenses for their child if it's for diploma education
Healthcare costs for serious illness	Expenses recorded in social medical insurance management system	Maximum RMB 80,000 based on actual basis	<ul style="list-style-type: none"> Deduction on actual expenses Can only deduct the medical cost that is over RMB 15,000 and borne by the individuals Could claim for the spouse and the underaged children
Housing mortgage interest	First housing loan under taxpayer or spouse's name	RMB 1,000/month up to 240 months (or RMB 12,000/year, up to 20 years)	<ul style="list-style-type: none"> Standard deduction Could be 50/50 split between the couple, or 100% deducted by one of them.
Expense for supporting the elderly	<ul style="list-style-type: none"> Parent over 60 years old Other legal dependent 	RMB 2,000/month (or RMB 24,000/year)	<ul style="list-style-type: none"> Standard deduction in total, regardless of the actual number of the elderly Could share among siblings, but each one can deduct no more than RMB 1000/month (or RMB 12,000/year)
Housing rent	<ul style="list-style-type: none"> Taxpayer and spouse do not have house in the city where they work 	Three applicable deduction amounts based on working locations: <ul style="list-style-type: none"> RMB 1,500/month (or RMB 18,000/year) RMB 1,100/month (or RMB 13,200/year) RMB 800/month (or RMB 9,600/year) 	<ul style="list-style-type: none"> Standard deduction Shall be 100% deducted by one of the couple if they live in the same city The couple can claim this deduction separately if they live in different cities and have no house in both cities

Section 3:
Case Study



Common cases for supplement IIT

1. The individual is employed by two or more employers and receives salary from all employers, the employers deducted standard deduction (RMB 5000 per month) from each monthly salary payment, which was duplicated;
2. In addition to wages and salaries, there are remuneration for services, remuneration for contributions, and royalties, after these various comprehensive income are combined, the annual rate is higher than the withholding rate;
3. The items that should not be deducted at the time of withholding, or the amount of deduction exceeds the prescribed standard, then the taxable income increases due to revision for deduction;
4. Where taxpayers obtain comprehensive income, but the withholding agent has not declared income in accordance with the law and withheld the IIT, the taxpayer shall revise the taxable income and make supplement IIT.
5. Others

Who shall make the annual individual income tax clearance

Example 1 (hired by two employers) :

Question:

Mr. A is Chinese tax resident, he works for company A from Jan to June; and works for company B from July to December, 2019. NO social insurance or special additional deduction.

Employer A: his salary from Jan to June is RMB 100,000; His employer withheld the IIT according to the law and **paid IIT is RMB 4480. $(100,000 - 5000*6) * 10\% - 2520 = 4480$**

Employer B: his salary from July to December is RMB 200,000; His employer withheld the IIT according to the law and **paid IIT is RMB 17,080. $(200,000 - 5000*6) * 20\% - 16,920 = 17,080$**

Total IIT prepaid in 2019 is RMB 21,560 (4480 + 17,080)

Answer:

Annual IIT = (comprehensive income - standard deduction – social security contributions – special additional deduction) * applicable tax rate – Super deduction

= (100,000 + 200,000 – 60,000) * 20% - 16,920 = 31,080

Tax payable/refund during for year 2019 = 31,080 - (4480 + 17,080) = 9,520

Mr. A needs to do annual IIT clearance to pay the extra IIT.

Common cases for IIT refund

1. The annual comprehensive income in 2019 is less than \$60,000, but IIT was prepaid;
2. There are eligible special additional deductions in 2019, but they were not declared during monthly advance tax payments;
3. There are eligible deductions in 2019, but they were not fully declared in 2019;
4. Individual who does not obtain wages and salaries, but obtains only the remuneration for personal services or authors' remuneration or royalties, it is necessary to handle special additional deductions through annual IIT clearance;
5. Where the taxpayer obtains the remuneration for personal services, authors' remuneration and royalties, the withholding rate applicable in advance tax payment is higher than the applicable tax rate of the whole year;
6. Tax benefit is not fully enjoyed during advance tax payment;
7. There are eligible public charitable donation expenses, but it is not deducted during advance tax payment.
8. Others.

Who shall make the annual individual income tax clearance

Example 2 (Special additional deductions) :

Question:

Mr. B is Chinese tax resident, his annual salary is RMB 200,000;

His employer withheld the IIT according to the law and **paid IIT is RMB 11,480. $(200,000 - 60,000) * 10\% - 2,520 = 11,480$**

Mr. B paid medical expenses for serious illnesses for his wife through social basic medical insurance system, total medical expenses is RMB 90,000, the amount born by Mr. B is RMB 50,000, the rest was covered by the insurance.

Answer:

Special additional deduction = 50,000 - 15,000 = 35,000

Annual IIT = (comprehensive income - standard deduction – social security contributions – special additional deductions) * applicable tax rate – Super deduction

= $(200,000 - 60,000 - 35,000) * 10\% - 2,520 = 7,980$

Tax payable/refund during for year 2019 = $7,980 - 11,480 = -3,500$, Mr. B can apply IIT refund.

Section 4:

Exemption from annual individual income tax clearance



Who are exempt from making annual IIT clearance

No need to carry out the annual IIT clearance if meet any one of below criteria:

1. Non-resident taxpayers;
2. Resident taxpayer obtained comprehensive income in 2019 and the withholding agent has withheld IIT from the comprehensive income according to IIT law, the resident taxpayer may not apply for annual IIT clearance if he/she meet one of the following conditions:
 - (1) Annual comprehensive income does not exceed RMB120,000;
 - (2) Annual IIT clearance shows that his/her tax amount to be paid retrospectively does not exceed RMB400;
 - (3) Prepaid tax amount matches the annual tax payable amount;
 - (4) The taxpayer is not applying for tax refund.

Who shall make the annual individual income tax clearance

No need to carry out the annual IIT clearance

Example 3:

Question:

Mr. C is a foreigner and has no domicile in China, he enters in China at 9:00 AM every Tuesday and left China at 5 PM every Friday. He gets salary from a Chinese company.

Does he need to make the annual IIT clearance?

Answer:

Staying days in China: 2 days a week (Wednesday and Thursday); 104 days in a calendar year.

Mr. C is a non-resident taxpayer, no need to make the annual IIT clearance. **(but still need to fulfill monthly IIT liability)**

Who shall make the annual individual income tax clearance

No need to carry out the annual IIT clearance

Example 4:

Question:

Mr. D is Chinese tax resident, his annual salary is RMB 100,000; no bonus.

Monthly social insurance is RMB 800. No special additional deduction.

His employer withheld the IIT according to the law correctly and **paid IIT is RMB 912.**

Answer:

Annual IIT = (comprehensive income - standard deduction – social security contributions – special additional deduction) * applicable tax rate – Super deduction

= (100,000 – 60,000 – 800*12) * 3% = 912

Annual IIT = paid IIT = 912

NO need to make the annual clearance

Who shall make the annual individual income tax clearance

No need to carry out the annual IIT clearance

Example 3:

Question:

Mr. C is Chinese tax resident, his annual salary is RMB 100,000; and annual bonus is RMB 50,000 .

Monthly social insurance is RMB 800. Special additional deduction RMB 1000 in each month, however, he did not provide the special additional deduction information to the employee.

His employer withheld the IIT according to the law and **paid IIT is RMB 912** for salaries (not including bonus) ; annual bonus applied referential tax policy.

He choose not to include the annual bonus into the comprehensive income during annual clearance.

Answer:

Annual IIT for salaries = (comprehensive income - standard deduction – social security contributions – special additional deduction) * applicable tax rate – Super deduction

$= (100,000 - 60,000 - 800 * 12 - 1000 * 12) * 3\% = 552$

Tax payable/refund during for year 2019 = 552 – 912 = 360

If he decides not to apply for tax refund, then no need to do annual IIT clearance.

Section 5:

Timeline and procedures for annual IIT clearance



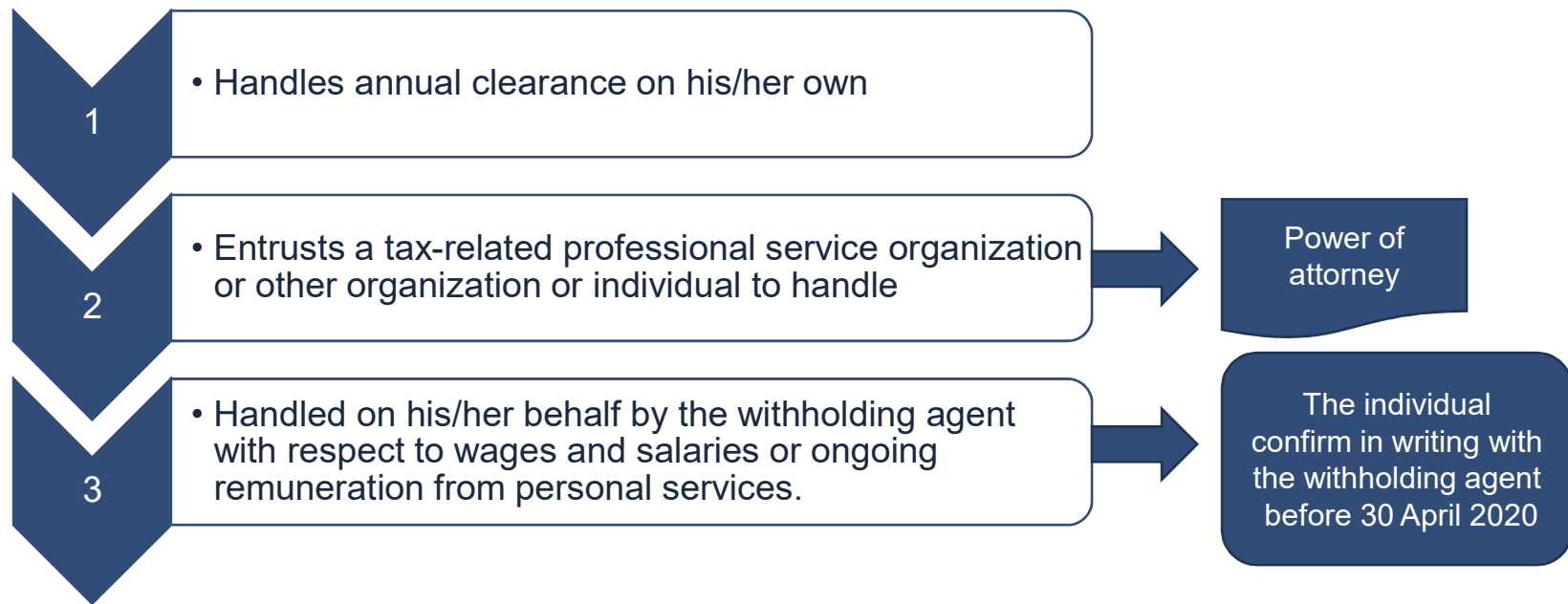
Timeline and procedures for annual IIT clearance

Timeframe:

The annual IIT clearance for year 2019 must be filed between **1 March and 30 June 2020**.

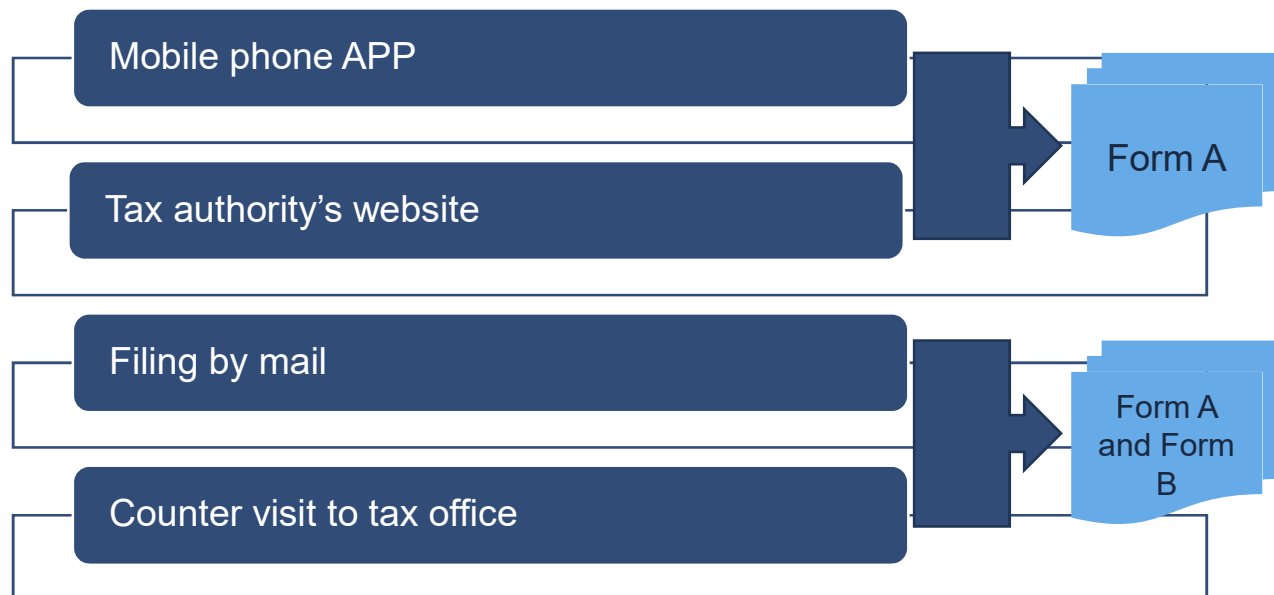
Where a taxpayer non-domiciled in China leaves China before 1 Mar. 2020, he/she may handle annual IIT clearance before leaving China.

Handling method:



Timeline and procedures for annual IIT clearance

Handling channels



Timeline and procedures for annual IIT clearance

Handling place

Handled by a taxpayer personally or by an entrusted party on behalf of the taxpayer

- Tax authority in charge where the taxpayer's employer is located

The taxpayer is employed by two or more employers

- Tax authority in charge at the location of any of his/her employers

The taxpayer does not have an employer

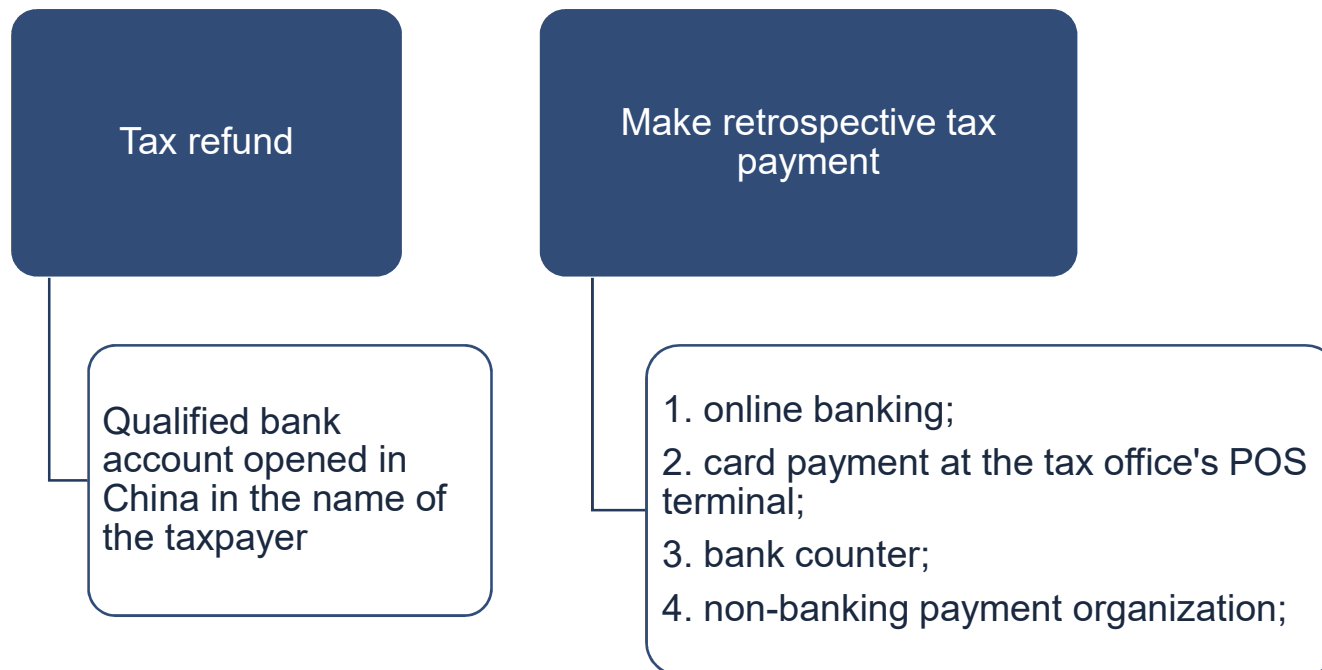
- Tax authorities in charge where his/her household registration or habitual residence is located

Withholding agent handles annual settlement on behalf of the

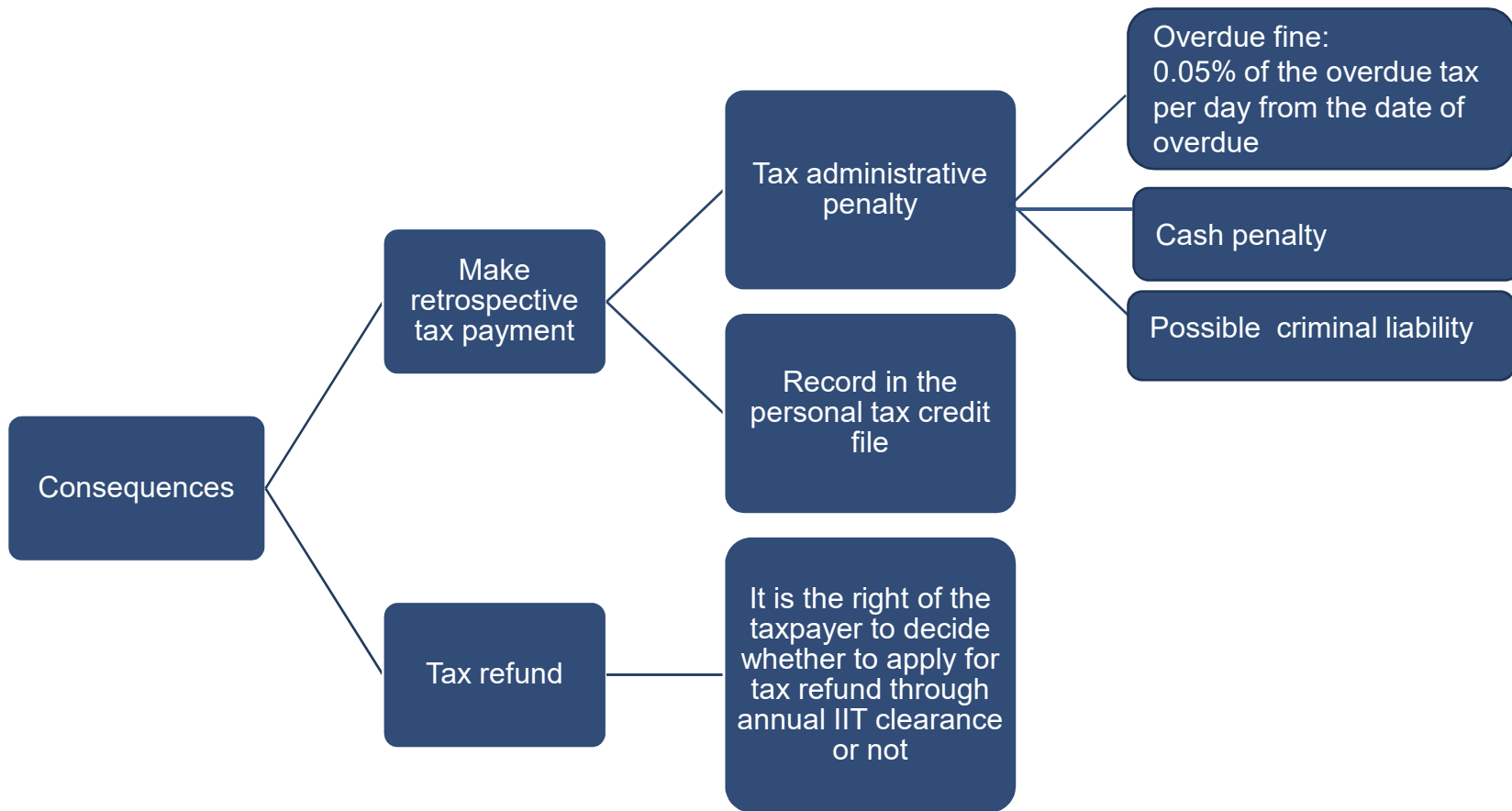
- Tax authorities in charge of the withholding agent

Timeline and procedures for annual IIT clearance

Payment way



Consequences of failing to handle the annual IIT clearance



Section 6:

Income sourced from overseas



Defining Source of Income, from overseas or China?

Place of payment \neq source of income

- Income derived from labour services provided in China due to employment, performance of contract, etc
- Income derived from lease of property for use in China
- Income derived from licensing of proprietary rights for use in China
- Income derived from transfer of properties such as immovable property located in China or transfer of other properties in China
- Authors' remuneration paid or born by enterprises or other organization in China
- Income from interest, dividends and bonuses derived from entities or resident individuals in China

Income sourced from overseas

Taxable income calculations

- Comprehensive income from outside China plus Comprehensive income sourced in China
- Business operations outside China plus income from business operations in China
- Other income sourced outside China shall not be consolidated with domestic income

Tax credit

- Where resident individual has already paid tax pursuant to the provisions of tax laws of the overseas jurisdiction where the income is sourced, the paid tax may be deducted from the tax amount payable in China within the tax credit limit.
- The limit of tax credit for comprehensive income sourced from a country (region) = tax amount payable on Comprehensive income sourced from China and overseas computed in accordance with regulations in China × comprehensive income sourced from the country (region) ÷ aggregate comprehensive income sourced from China and overseas
- Etc.

Documentation

- Tax payment certificate issued by the overseas tax authority;
- Tax payment notice or tax payment record;

Section 7:

Special concerns for foreigners



Special concerns for foreigners

Conversion between Non-resident taxpayer and resident taxpayer

When a non-domiciled individual makes declaration in a tax year for the first time, he/she shall estimate the number of days he/she resides in China within a tax year in accordance with employment contract, and other agreements, and compute and pay tax in accordance with the estimation.

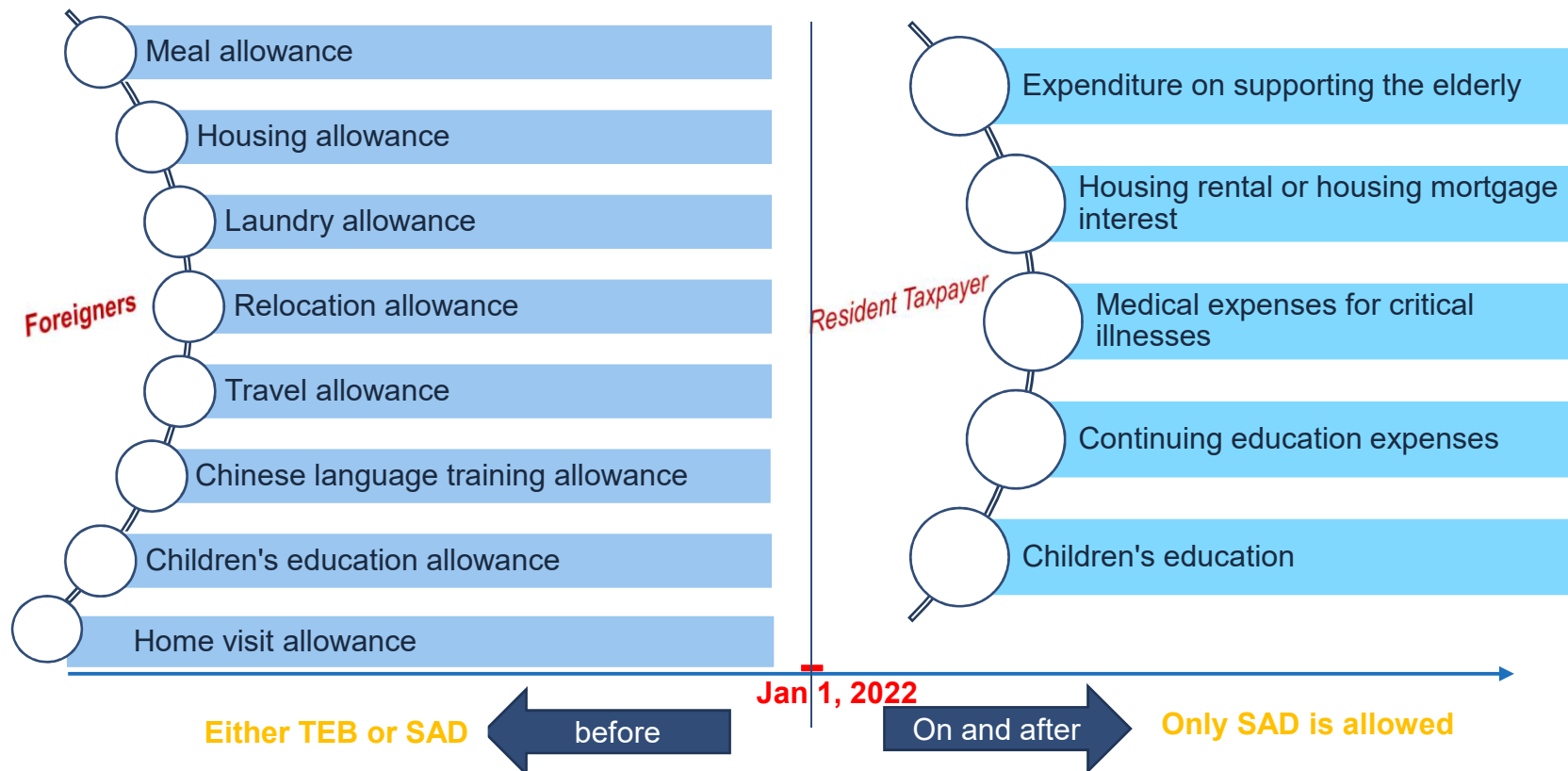
Estimation	Actual Situation	Treatment
Non-resident individual	Resident individual	<ol style="list-style-type: none"> 1 The tax withholding method within a tax year shall remain unchanged; and 2 Complete annual tax clearance between 1 March and 30 June of the following year or before permanently leaving China.
Resident individual	Non-resident individual	<ol style="list-style-type: none"> 1 Report to the tax authorities by Jan 15th of the following year and recompute tax payable amount as a Non-resident individual, and make tax payment retrospectively or apply tax refund if any. 2 NO late tax payment fine will be charged.
Estimated staying days is no more than 90 days (183 days if DTA applies)	Actual staying days is more than 90 days (183 days if DTA applies)	<ol style="list-style-type: none"> 1 Report to the tax authorities within 15 days from end of the month in which his/her stay attains 90 days or 183 days, recompute tax payable amount for income from wages and salaries in previous months, and pay tax retrospectively; 2 NO late tax payment fine will be charged.

Special concerns for foreigners

Tax Exemption Benefits vs. Specific Additional Deductions

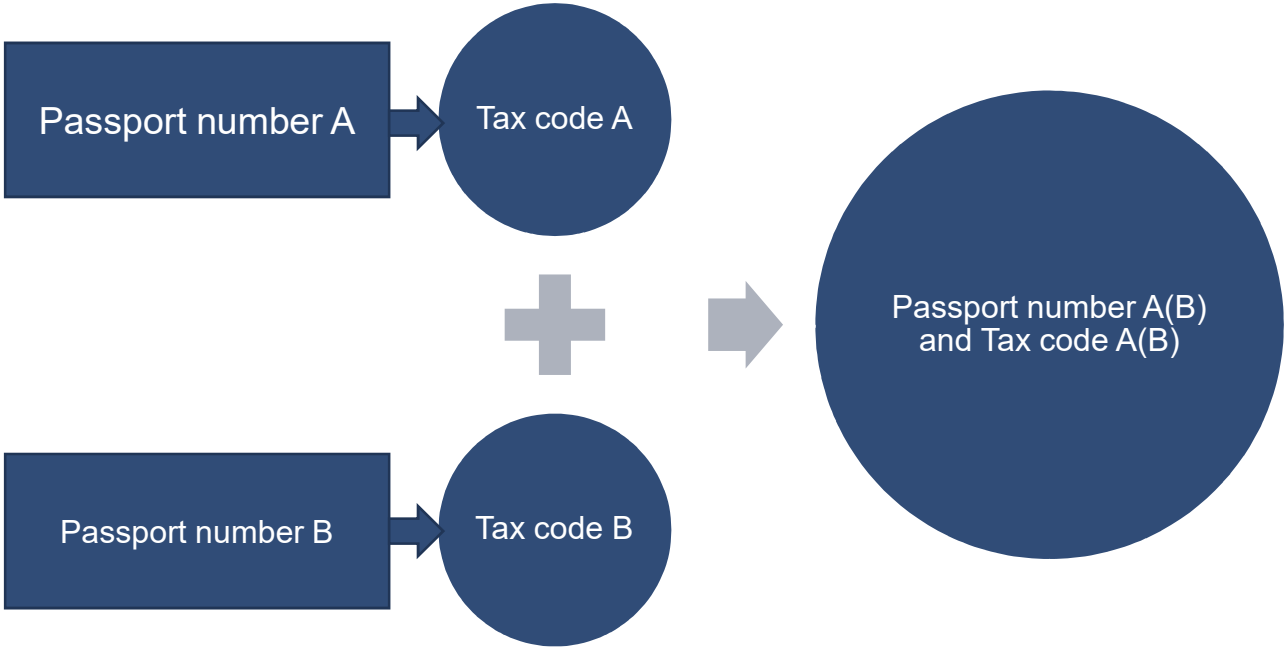
Tax Exemption Benefits (“TEB”)

Specific Additional Deductions (“SAD”)



Special concerns for foreigners

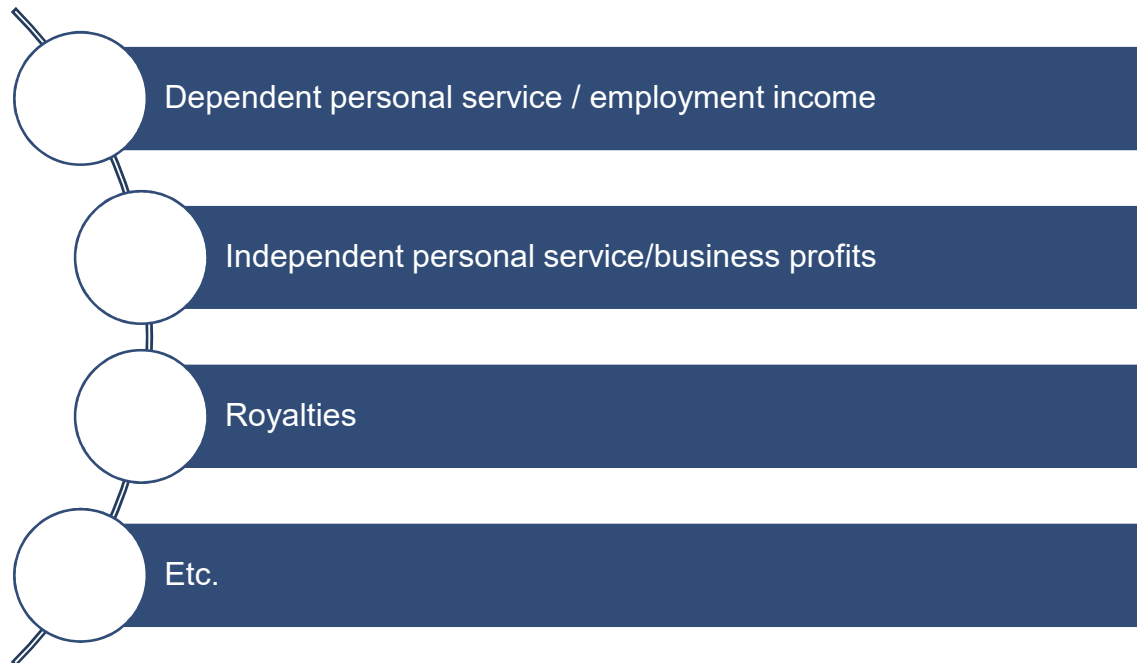
Change of passport number



Special concerns for foreigners

Avoidance of Double Tax

A non-PRC domiciled individual who is defined as a tax resident of a country where PRC has concluded a relevant DTA (double taxation agreement) may apply reduced tax rate or exemption in the PRC if conditions are met.



Tax Liability for Salaries and Wages (Non-Senior Executives, No DTA applies)

Period in China	China Sourced Income		Foreign sourced Income	
	Paid or borne by Chinese entities/individual	Paid or borne by foreign entities/individual	Paid or borne by Chinese entities/individual	Paid or borne by foreign entities/individual
no more than 90 days	pay	Exempted	Not taxed	Not taxed
more than 90 days but less than 183 days	pay	pay	Not taxed	Not taxed
183 days or more, but no more than 6 years	pay	pay	pay	Exempted
183 days or more in current tax year and more than 6 years (note 2)	pay	pay	pay	pay
China-domiciled individuals	pay	pay	pay	pay

NOTE:

1. This form is applicable for individuals who do not hold senior executive positions, and Double Taxation Agreement is not taken into consideration.
2. Meeting both criteria below is considered as 6 years:
 - Staying in China for 183 days or more in each year in six successive years; and
 - Not leaving China for more than 30 days for a single trip in any year of this 6 years.

Tax Liability for Salaries and Wages (Non-Senior Executives, DTA applies)

Period in China	China Sourced Income		Foreign sourced Income	
	Paid or borne by Chinese entities/individual	Paid or borne by foreign entities/individual	Paid or borne by Chinese entities/individual	Paid or borne by foreign entities/individual
No more than 183 days	pay	Exempted	Not taxed	Not taxed
183 days or more, but no more than 6 years	pay	pay	Not taxed	Not taxed
183 days or more in current tax year and more than 6 years (note 3)	pay	pay	pay	pay
China-domiciled individuals	pay	pay	pay	pay

NOTE:

1. This form is applicable for individuals who do not hold senior executive positions;
2. Double Taxation Agreement applies in this form.
3. Meeting both criteria below is considered as 6 years:
 - Staying in China for 183 days or more in each year in six successive years; and
 - Not leaving China for more than 30 days for a single trip in any year of this 6 years.

Special concerns for foreigners

Other concerns for DTA

- How to define tax resident of a jurisdiction;
- What is six-year rule;
- How to calculate staying days under DTA;
- How to define senior executive ;
- How to apply article of “Directors fees” in DTA;
- How to handle if the tax year in other jurisdiction is not the calendar year;
- How to make application to China tax authority to enjoy the DTA benefits;



Section 7:

What DSA can help you



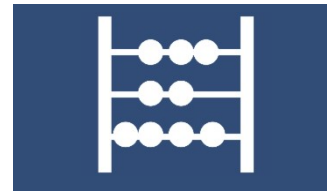
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- Tax advice for individuals and companies.
- Policy updates.
- Implementation guidance.
- Tax returns.

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Structuring



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Employment law and HR



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Due Diligence



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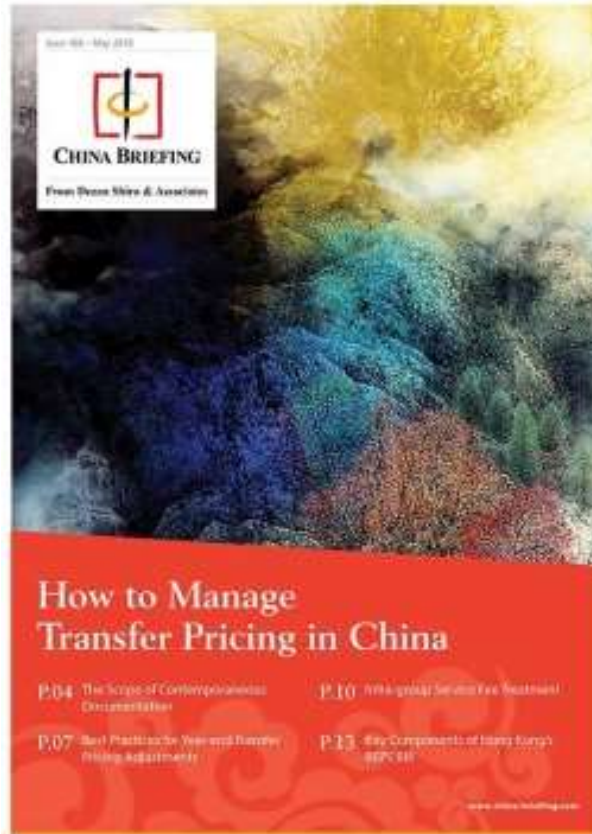
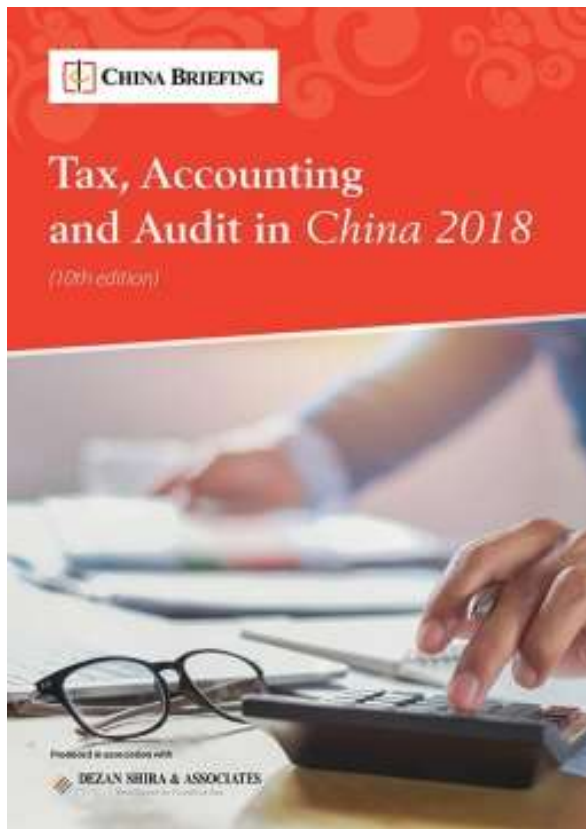
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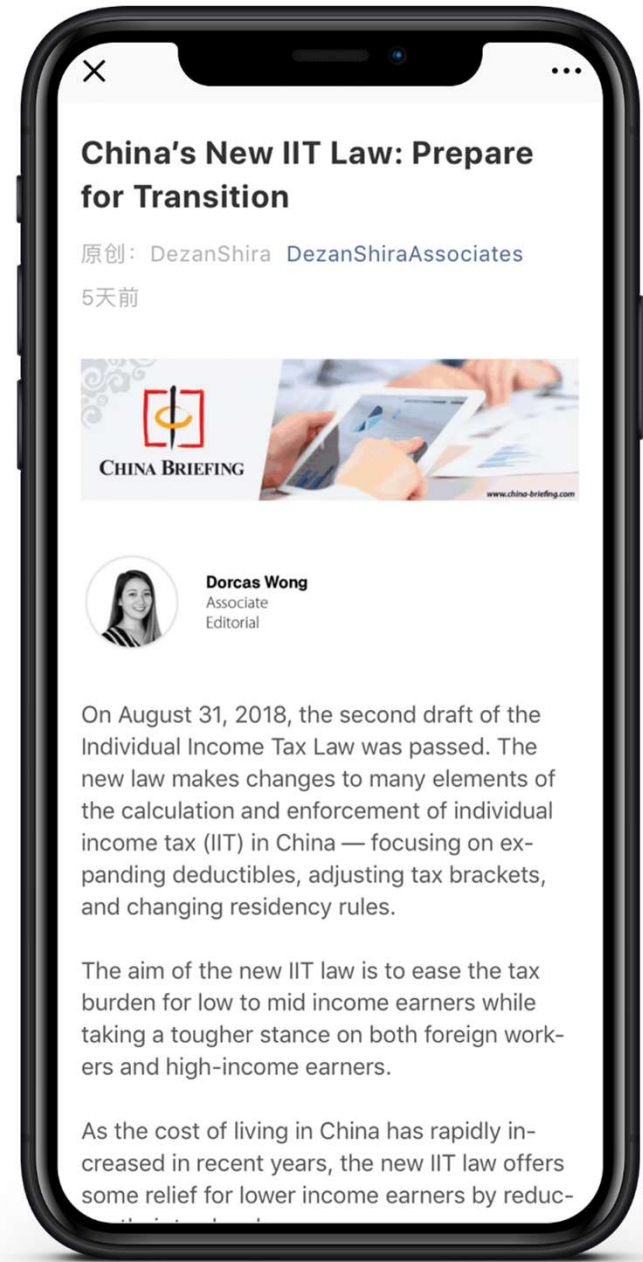


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China's New IIT Law: Prepare for Transition

原创: DezanShira DezanShiraAssociates

5天前



Dorcas Wong
Associate
Editorial

On August 31, 2018, the second draft of the Individual Income Tax Law was passed. The new law makes changes to many elements of the calculation and enforcement of individual income tax (IIT) in China — focusing on expanding deductibles, adjusting tax brackets, and changing residency rules.

The aim of the new IIT law is to ease the tax burden for low to mid income earners while taking a tougher stance on both foreign workers and high-income earners.

As the cost of living in China has rapidly increased in recent years, the new IIT law offers some relief for lower income earners by reduc-



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