

# Tax - Individual Income Tax

## Introduction

China's Individual Income Tax (IIT) Law has undergone many changes since it was first promulgated in 1980. Since this time, the Chinese tax authorities have implemented different measures to strengthen the collection and administration of IIT. For example, in recent years, the State Administration of Taxation (SAT) has issued several tax circulars to tighten its tax administration of high income earners, especially on income derived from investment and share transfers. In addition, the Chinese tax authorities have paid more attention to the tax compliance status of foreign inbound as well as Chinese outbound assignees.

## Key challenges

### Taxation of expatriates in China

Foreign individuals and residents of Hong Kong, Macau, and Taiwan are taxed in accordance with their physical presence in China. For example, foreign individuals who reside in China for less than one year will be taxed only on their China-sourced income. It is important for each expatriate to evaluate their PRC implications based on their own individual facts and circumstances.

The type of position the expatriate has can also impact how they are taxed. For example, there are specific laws prescribing how chief representatives of representative offices (ROs) are taxed. This can be vastly different to the rules applying to employees of a wholly foreign owned entity (WFOE).

### Tax planning

There are several types of non-taxable benefits which can be incorporated into an expatriate's remuneration contract. There are strict rules and documentation requirements however in order to successfully claim these.

### Deductions

When calculating taxable income from employment income, IIT law allows a personal standard deduction (non-refundable and no carryback/forward provisions). At present, the monthly standard deduction amount is CNY 3,500. Foreign individuals are entitled to an additional deduction of CNY 1,300 (i.e. a monthly standard deduction of CNY 4,800). Chinese social security contributions made in accordance with the Social Security Law are deductible for IIT purposes.

### Tax administration

For employment income, the employer is obligated to file the withholding IIT returns with its tax authority on a monthly basis. For other categories of income, the tax return has to be filed on a monthly, annual, or transaction basis, depending on the specific circumstances.

### Permanent establishment

It is important to remember that a foreign company can create a permanent establishment (PE) in China in many ways. This includes sending employees to China exceeding certain thresholds.

Once a permanent establishment is created, any income attributable to the permanent establishment will be subject to PRC tax.



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## How we can help

Our IIT specialists can assist you with:

### Expatriate IIT services

- Tax advisory
- Tax planning
- Other ad-hoc services

### PRC IIT compliance

- Completion of monthly and annual IIT returns
- Registrations with tax authorities
- Assistance with tax audits and communication with the relevant tax authorities

### PRC social security

- Advise on China's social security rules and local practices
- Assist you in complying fully with China's social security rules, including any of the latest developments

### Visa/immigration services

- Work permits and visa applications for foreign employees being brought to China to work full time
- Visas for employees visiting China for business trips

### Health check and compliance

- Compliance reviews designed to identify risks and areas of non-compliance
- Identify tax planning opportunities to improve overall efficiency

### Global mobility services

- Help you design a robust employee mobility plan under the PRC IIT laws and regulations
- Structure employment arrangements to improve overall tax efficiency
- Cross border tax advisory and planning for employees working in multiple jurisdictions
- Identify any potential permanent establishment (PE) risks as well as put procedures in place to mitigate these risks, especially for frequent travellers to China

## Why Dezan Shira & Associates

Dezan Shira & Associates' tax practice specifically focuses on providing advice to foreign companies in relation to their investments and business activities in China. Dezan Shira & Associates has a dedicated PRC tax team which is highly experienced and specialised in all areas of PRC tax, including IIT. Our tax professionals have a strong working relationship with the China tax authorities on all levels and are able to assist you with multiple aspects associated with your company's IIT affairs.

The abovementioned services are intended to highlight the range of services we currently provide our clients. We would be pleased to have a conversation with you to hear about your particular needs and requirements. From there, we can prepare a precise scope of work and fee proposal taking these into account.

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