

**Summary of Important Changes
in Chinese Tax Regulations since January 2019**

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Implementation Rules of Preferential Tax Deduction Policy for Small Low-Profit Enterprises and Small Scale Tax Payers

January 25, 2019 / Accounting & Tax

On January 17, 2019, the Ministry of Finance and the State Administration of Taxation (“SAT”) released the “Notice on implementing the preferential tax deduction policy for small low-profit enterprises” (***Caishui [2019] No.13***). The implementation period of this notice is from January 1, 2019 to December 31, 2021. We have summarized several key points of this implementation for small low-profit enterprises as follows:

1. **Small-scale Tax Payers:**

	Conditions	Small-scale Tax Payers
<u>Value-added Tax</u>	< RMB 100,000	Exempted

The sales amount for sale of goods, labor services, services and intangible assets does not exceed RMB100, 000 shall be exempted from VAT.

2. **Small low-profit enterprise:**

	Conditions	Small low-profit enterprises
<u>Corporate Income Tax</u>	The portion of annual taxable Income < RMB 1 million	The portion of annual taxable Income*25%*20%
	The portion of annual taxable income > RMB 1 million, but < RMB 3 million	The portion of annual taxable Income*50%*20%

Notes: regardless if a small low-profit enterprise pays enterprise income tax by way of levying based on accounts examination or levying based on assessment, the enterprise may enjoy the aforesaid incentives.

The small low-profit enterprises shall satisfy three criteria:

- Annual taxable income amount does not exceed RMB 3 million
- Staff headcount does not exceed 300
- Total assets do not exceed RMB 50 million

The stated number of employees and total assets should be determined based on the quarterly average number of the enterprise for the whole year.

Cumulative Withholding Method on the Monthly Individual Income Tax

January 31, 2019 / Accounting & Tax

Starting from January 2019, the monthly calculation of the individual income taxes of your employees will change. The tax rate will no longer be just based on the amount of the taxable salary of the current month. Instead, in each month the cumulated amount of taxable salary in the current year is determined and the applicable tax rate is based on this cumulative amount. The details of the calculation method are stipulated in the *Announcement of the State Administration of Taxation on Promulgation of the Administrative Measures on Declaration of Individual Income Tax Withholding (Trial Implementation), Article 6:*

- ✓ Tax amount to be withheld by the employer for the current period = (taxable income amount subject to cumulative withholding × withholding rate – quick calculation deduction) – cumulative tax credit – cumulative withheld amount
- ✓ Taxable income amount subject to cumulative withholding = cumulative income – cumulative tax-exempt income – cumulative deduction expenses – cumulative special deductions – cumulative special additional deductions – cumulative other deductions determined pursuant to the law

The new calculation method implies that for many employees, the applied tax rate will increase at certain month during the year, i.e. the net salary received by the employee will decrease at the same time, as illustrated in the following example. To avoid confusion it may be necessary to explain this to the employees in advance.

Example:

An employee has a monthly gross salary of RMB 15,000 and the employee's monthly contribution for social security and housing fund is RMB 2,450. The monthly lumpsum deduction is RMB 5000. Assume that the employee is further entitled to special deductions for the children's education, housing and support for the elderly in the amount of total RMB 2,000 per month and there is no other reduction or exemption of income and tax exemption. For January to July 2019, for example, the withholding tax for each month should be calculated according to the following method:

January: Taxable income = 15,000 – 5,000 - 2,450 - 2,000 = RMB 5,550; x Tax rate 3% = RMB 166.5

February: Taxable income = 15,000x2 – 5,000x2 - 2,450x2 – 2,000x2 = RMB 11,100; x Tax rate 3% = RMB 333; less tax credit from previous months RMB 166.5 = 166.5 RMB;

July: Taxable income = 15,000x7 – 5000x7 - 2,450x7 – 2,000x7 = 38,850; x Tax rate 10% = RMB 3,885; less quick calculation deduction 2,520 = RMB 1,365; less tax credit from previous months RMB 166.5x6 = RMB 366;

The tax rates are based on YTD income according to the following table. In the example, it can be seen that from January to June, the cumulated taxable income is below the threshold of 36,000 RMB and the applied tax rate is 3%. In July, when the cumulated taxable income exceeds the threshold, the tax rate changes to 10%. Accordingly, the after tax income of the employee in this example will be higher in the period January-June and the decrease in July.

Individual income tax rates (applicable for consolidated income)

Grade	Annual taxable income amount	Tax rate (%)	Quick Calculation Deduction
1	RMB36,000 or less	3	0
2	The part exceeding RMB36,000 and up to RMB144,000	10	2,520
3	The part exceeding RMB144,000 and up to RMB300,000	20	16,920
4	The part exceeding RMB300,000 and up to RMB420,000	25	31,920
5	The part exceeding RMB420,000 and up to RMB660,000	30	52,920
6	The part exceeding RMB660,000 and up to RMB960,000	35	85,920
7	The part exceeding RMB960,000	45	181,920

Final Implementation Law for Individual Income Tax

February 01, 2019 / Accounting & Tax

On 22 December 2018, China's State Council released the final implementation regulations for the amended Individual Income Tax (IIT) law (Decree of the State Council No. 707). Draft implementation regulations were released for consultation by the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) on 20 October 2018. We have summarized several changes made to the draft regulations regarding to resident and non-resident tax payers as follows:

Non-resident taxpayers

- **"Five-year rule" to "Six-year rule"**
 - The five-year rule has been adjusted to six-year rule and foreign employees can avoid paying taxes on worldwide income as a Chinese resident. Although residence will be triggered based on 183 days, a single break in excess of 30 days will continue to create a "tax break" for these purposes.
 - The eligibility for the exemption on foreign sourced income may need to be validated through a "put-on-record" filing.
- **Tax-exempt benefits will be retained**
 - Foreign employees can elect to retain the tax-exempt benefits privilege they currently enjoy. Foreign employees cannot enjoy double benefits from expenses incurred of the same nature under both the non-taxable benefits rules and the specific additional deductions rules.

Resident taxpayers

- **Itemized deductions**
 - The new IIT law allows resident individuals to claim six types of additional itemized deductions against their comprehensive income to compute IIT. The final implementation regulations confirm that the additional itemized deductions may be taken when computing IIT on business income to the extent the individual does not have any comprehensive income.
 - Individuals will be required to submit the information relating to itemized deduction claims for first time declaration to their tax withholding agent or tax bureau, and any subsequent changes should also be notified to the employer.
 - Unclaimed tax deductible expenses incurred in current year cannot be carried over to the following year.

Please see the special deductions breakdown as follows:

Item	Key qualifying conditions		Amount for deduction (RMB)	Who can claim?	Supporting Documents
Children's education	Pre-school	3 years onwards	1000/month/child	100% for either parent or 50%/50% by both parents	Only for children receiving education overseas: admission notice, student visa etc.
	Compulsory education	Primary & middle school			

Item	Key qualifying conditions		Amount for deduction (RMB)	Who can claim?	Supporting Documents
	Intermediate education	High school, Vocational school			No requirement for children accepting education in China.
	Higher education	Degree, Masters, Doctorate			
Further education	Formal education in China	As per above levels of education	400/month (max. 48 months for one formal education)	Individual taxpayers Exception for individual that has work but accepts education lower than bachelor degree: by parent or the individual	No requirement for formal education.
	Professional education	Recognized qualification or certificate in China	One-off 3,600 in the year obtaining qualification /certificate		For professional education: professional certificate.
Serious illness medical fees	Medical expenses incurred for individual taxpayer, spouse or minor children after the reimbursement by statutory medical insurances in aggregate more than RMB 15,000		Actual expenses in part of exceeding 15,000 but less than 80,000 (deduction shall be claimed at the annual IIT reconciliation of the following year)	Medical fees for taxpayer or spouse: either by taxpayer or spouse Medical fees for minor children: either party of the parent	Original or photo copy of receipts for medical service charges, vouchers for statutory medical insurance reimbursement, list of annual medical expenses issued by medical insurance institute etc.
Housing loan interest	Bank loan or housing fund for buying real property in China Limited to first property only		1000/month (max. 240 months)	If jointly owned, either husband or wife to claim	Loan agreement and vouchers for re-payment of loan etc.
Housing rent	Not owning property in place of work	Specified big cities ¹	1500/month	If husband and wife work in the same city, only one side that sign the agreement can claim	Rental agreement
	No claim of housing loan interest	Cities with population in urban districts > 1m	1100/month		

¹ Specified big cities include Beijing, Shanghai, Tianjin, Chongqing, Shenzhen, Xiamen, Ningbo, Qingdao, Dalian and the capital cities of all provinces.

Item	Key qualifying conditions		Amount for deduction (RMB)	Who can claim?	Supporting Documents
	deduction by the taxpayer or spouse	Cities with population in urban districts < 1m	800/month	If husband and wife work in different cities and not own property in either city, both and claim deduction of own	
Supporting elderly	60 years or older parents as well as grandparents aged 60 and above whose child(ren) has/have passed away	Taxpayer is the only one child	2000/month	For taxpayer with siblings: split between siblings: maximum claim is 1,000 per month for each	Agreement for the allocation among siblings

Value Added Tax Reformation in China

March 11, 2019 / Accounting & Tax

On 5th March 2019, the Premier of China released a government work report at the 13th National People's Congress and announced further tax reductions. In terms of VAT, tax rates shall be reduced. The reduction scope is as follows:

Taxable transaction	Applicable VAT rate	
	Before	After
Sales and importation of general goods; provision of processing, repair and replacement services; and provision of leasing services of tangible and moveable assets	16%	13%
Sales and importation of specified goods; provision of transportation, postal, basic telecom services, construction services and leasing services of immovable property; and sales of land use rights or immovable property	10%	9%
Provision of value-added telecom services, financial services, modern services and lifestyle services; and sales of intangible assets other than land use rights	6%	6%

The enforcement time of the VAT reduction is not yet determined. We expect that the State Administration of Taxation will issue a regulation after the National Congress and release more details in this aspect.

We will keep you updated once further information has been released.