

China Adopts the Amendments of Individual Income Tax Law

On 31st August, 2018, the Standing Committee of China's National People's Congress passed the Amendments to the Individual Income Tax Law (“the Amendments”). The Amendments intend to lower the tax burden of the low- and medium-income working class, allow for specific deductions to combat higher living cost and introduce general anti-tax avoidance rule to protect the integrity of the tax system. The Amendments shall come into force in full as of 1st January, 2019.

Further highlights of the Amendments are as follows:-

Amendment Highlights

Lowering the threshold of tax residence

The Amendments explicitly classify taxpayers into resident individuals and non-resident individuals, and lower the threshold of resident taxpayer from an individual who resides in Mainland China for one year to for an accumulated 183 days or more within an assessment year. The revised tax residence threshold is in line with the international practice.

Consolidating four types of individual incomes into comprehensive income

Salaries and wages, independent service income, author's remuneration and royalties are collectively grouped in the scope of comprehensive income (“the Comprehensive Income”) and shall be subject to assessment under a uniform progressive tax rates system.

Raising standard deduction and introducing deductions of specific expenditures

When calculating the Individual Income Tax on the Comprehensive Income, deductions allowed include: standard deduction, special deductions, additional special deductions and other allowable deductions. Under the Amendments, the standard deduction will be raised to CNY5,000 per month (i.e. CNY60,000 per annum). Special deductions for contributions to social insurances (e.g. basic pension insurance, basic medical insurance, unemployment insurance, etc.) and housing fund paid according to the prescribed scopes and standards will continue to be allowed. Moreover, additional special deductions are introduced, including deductions for specific expenditures on children's education, continuing education, medical treatment of serious disease, home loan interest or rent, and elderly care.

The additional standard deduction of CNY1,300 per month for foreigners will no longer apply, which means the standard deduction for foreigners is also CNY5,000 per month (i.e. CNY60,000 per annum).

Adjusting tax brackets

Certain tax brackets were widened with the aim to reduce the individual income tax imposed on the low- and medium-income taxpayers.

Please refer to the below tables for the comparisons of the tax brackets and tax rates on salaries income (or Comprehensive Income) and income from operation (for sole proprietorship enterprises or partnerships) before and after the Amendments.

Tax Brackets for Salaries/Comprehensive Income (Monthly)		
Assessable Comprehensive Income after the Amendments (CNY)	Assessable Salaries before the Amendments (CNY)	Tax rate (%)
0-3,000	0-1,500	3
3,000-12,000	1,500-4,500	10
12,000-25,000	4,500-9,000	20
25,000-35,000	9,000-35,000	25
35,000-55,000	35,000-55,000	30
55,000-80,000	55,000-80,000	35
>80,000	>80,000	45

Tax Brackets for Income from Operation (Yearly)		
Assessable Operation Income after the Amendments (CNY)	Assessable Operation Income before the Amendments (CNY)	Tax rate (%)
0-30,000	0-15,000	5
30,000-90,000	15,000-30,000	10
90,000-300,000	30,000-60,000	20
300,000-500,000	60,000-100,000	30
>500,000	>100,000	35

Introducing general anti-tax avoidance rule

The Amendments grant to the tax authorities the right of tax adjustment based on reasonable method on transactions with the aim of tax avoidance, such as property transfers that do not follow the arm's length principle, business in overseas tax havens with no operation substance and unreasonable commercial arrangements for obtaining inappropriate tax benefits and etc.

Relevant Link:

Resolution by the Standing Committee of China's National People's Congress on the Amendment of the Individual Income Tax Law of the People's Republic of China
http://www.gov.cn/xinwen/2018-08/31/content_5318232.htm

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