

Tax

Issue P285/2018 – 21 December 2018

Tax Analysis

Individual Income Tax Reform: Guidance released on tax withholding under new IIT law

On 20 December 2018, China's State Administration of Taxation (SAT) published Bulletin 56 that provides guidance on the withholding of tax under the newly amended individual income tax (IIT) law that becomes effective on 1 January 2019.

The revised IIT law consolidates four previous categories of income (i.e. salaries and wages, remuneration for independent services, author's remuneration and income from royalties) into a single category called "comprehensive income."¹ Comprehensive income is subject to progressive tax rates ranging from 3% to 45% (there are seven tax brackets). The IIT on comprehensive income derived by residents is assessed on an annual basis, and is collected through the withholding of tax in advance, which is remitted to the tax authorities by the payer (i.e. withholding agent) on a monthly or transactional basis, followed by a final reconciliation and settlement by the taxpayer at the time he/she files the annual tax return. The IIT on comprehensive income derived by nonresidents is assessed on a monthly or transactional basis and is generally collected through the withholding of tax, which is remitted to the tax authorities by the payer.

Bulletin 56 provides guidance for businesses on how to compute the IIT to be withheld under the new IIT law.

Authors:

Beijing

Huan Wang

Partner

Tel: +86 10 8520 7510

Email: huawang@deloitte.com.cn

Bonita Jiang

Senior Manager

Tel: +86 10 8520 7599

Email: ljiang@deloitte.com.cn

¹ See Deloitte Tax Analysis on the new IIT law:

<https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/tax/ta-2018/deloitte-cn-tax-tap2772018-en-180911.pdf>

<https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/tax/ta-2018/deloitte-cn-tax-tap2752018-en-180703.pdf>

Advance tax on comprehensive income of residents

Salaries and wages

The advance tax to be withheld on salaries and wages is computed using a cumulative-salaries-based approach. The relevant computation formulas are as follows:

Advance tax to be withheld for the current period = (Cumulative taxable income of salaries to date x Advance withholding tax rate - Quick deduction) - Cumulative tax exemptions and reductions - Cumulative advance tax that has been withheld and remitted

Cumulative taxable income of salaries to date = Cumulative salaries to date - Cumulative tax-exempt salaries - Cumulative standard deductions - Cumulative itemized deductions - Cumulative additional itemized deductions - Cumulative other deductions

Notes:

- "Cumulative standard deduction" is RMB 5,000/month multiplied by the number of months the individual has worked for the employer in the current year.
- The advance withholding tax rate table is set out below (see Table I).

Examples

A resident individual earns a salary of RMB 40,000 per month, and makes a total monthly personal contribution to social security and the housing fund of RMB 3,000 (which are both itemized deductions) and is entitled to an additional itemized deduction of RMB 2,000:

- *Advance tax to be withheld in January 2019 = (40,000 - 5,000 - 3,000 - 2,000) x 3% = 900*
- *Advance tax to be withheld in February 2019 = (40,000 x 2 - 5,000 x 2 - 3,000 x 2 - 2,000 x 2) x 10% - 2,520 - 900 = 2,580*

Remuneration for independent services, author's remuneration and income from royalties

The advance tax to be withheld on other three types of comprehensive income are computed on a monthly or transactional basis. The computation formulas are as follows:

Advance tax to be withheld on remuneration for independent services = Taxable income for advance tax withholding purposes x Advance withholding tax rate - Quick deduction

Advance tax to be withheld on author's remuneration and income from royalties = Taxable income for advance tax withholding purposes x 20%

Taxable income for advance tax withholding purposes (for independent services and income from royalties) = Gross revenue - Deductible expenses

Taxable income for advance tax withholding purposes (for author's remuneration) = (Gross revenue - Deductible expenses) x 70%

For more information, please contact:

Global Employer Services
National Leader

Hong Kong

Tony Jasper

Partner

Tel: +852 2238 7499

Email: tojasper@deloitte.com.hk

Northern China

Beijing

Huan Wang

Partner

Tel: +86 10 8520 7510

Email: huawang@deloitte.com.cn

Eastern China

Shanghai

Irene Yu

Partner

Tel: +86 21 6141 1277

Email: iryu@deloitte.com.cn

Southern China

Shenzhen

Fei Fei Li

Director

Tel: +86 755 3353 8160

Email: ffli@deloitte.com.cn

Western China

Chongqing

Frank Tang

Partner

Tel: +86 23 8823 1208

Email: ftang@deloitte.com.cn

Notes:

- "Deductible expenses" are the higher of RMB 800 and 20% of "gross revenue."
- The advance withholding tax rate table is set out below (see Table II).

Example A

A resident individual earns gross independent service remuneration of RMB 40,000:

$$\text{Advance tax to be withheld} = (40,000 - 40,000 \times 20\%) \times 30\% - 2,000 = 7,600$$

Example B

A resident individual earns gross author's remuneration of RMB 40,000:

$$\text{Advance tax to be withheld} = (40,000 - 40,000 \times 20\%) \times 70\% \times 20\% = 4,480$$

It should be noted that the taxable income computation method and tax rate used for purposes of advance tax withholding are different from those used for the final tax calculation at year-end.

	Advance withholding		Annual reconciliation	
	Taxable income	Advance withholding tax rates	Taxable income	Tax rates
Remuneration for independent services	Gross revenue - deductible expenses (determined as the higher of RMB 800 and 20% of gross revenue); an additional 30% reduction is allowed for author's remuneration	Progressive tax rates ranging from 20% to 40%, with three tax brackets	Gross revenue x 80%; an additional 30% reduction is allowed for author's remuneration	Progressive tax rates ranging from 3% to 45%, with seven tax brackets
Income from royalties		20%		
Author's remuneration		20%		

Tax withholding on comprehensive income of nonresidents

The tax on comprehensive income of nonresidents is computed on a monthly or transactional basis and withheld by the payer. The computation formula is as follows:

$$\text{Tax to be withheld on comprehensive income} = \text{Taxable income} \times \text{Tax rate} - \text{Quick deduction}$$

Notes:

- "Taxable income" is determined as follows:
 - Gross revenue minus the standard deduction (i.e. RMB 5,000/month) for salaries and wages; and
 - 80% of gross revenue for remuneration for independent services, author's remuneration and income from royalties, with an additional 30% reduction allowed for author's remuneration.
- The tax rate table is set out below (see Table III).

Other guidance

Bulletin 56 confirms that a resident individual must make a final reconciliation and settlement at the time he/she files the annual tax return between 1 March and 30 June of the year following the tax year if the total IIT withheld is different from the final tax due. Bulletin 56 also contains the relevant reporting form with filing instructions.

Tax rate tables

*Table I - Advance withholding tax rates
(Salaries and wages derived by residents)*

Brackets	Cumulative taxable income of salaries to date (RMB)	Advance withholding tax rate (%)	Quick deduction
1	36,000 or less	3	0
2	Over 36,000 up to 144,000	10	2,520
3	Over 144,000 up to 300,000	20	16,920
4	Over 300,000 up to 420,000	25	31,920
5	Over 420,000 up to 660,000	30	52,920
6	Over 660,000 up to 960,000	35	85,920
7	Over 960,000	45	181,920

*Table II - Advance withholding tax rates
(Remuneration for independent services performed by residents)*

Brackets	Taxable income (RMB)	Advance withholding tax rate (%)	Quick deduction
1	20,000 or less	20	0
2	Over 20,000 up to 50,000	30	2,000
3	Over 50,000	40	7,000

*Table III - Withholding tax rates
(Comprehensive income derived by nonresidents)*

Brackets	Taxable income (RMB)	Withholding tax rate (%)	Quick deduction
1	3,000 or less	3	0
2	Over 3,000 up to 12,000	10	210
3	Over 12,000 up to 25,000	20	1,410
4	Over 25,000 up to 35,000	25	2,660
5	Over 35,000 up to 55,000	30	4,410
6	Over 55,000 up to 80,000	35	7,160
7	Over 80,000	45	15,160

Deloitte's view

Bulletin 56 should be welcome as it provides timely guidance for IIT withholding agents to understand how to compute the amount of tax to be withheld and remitted to the tax authorities.

The introduction of a cumulative-salaries-based approach to compute the advance tax to be withheld on salaries and wages earned by resident individuals is designed to minimize potential differences between the advance tax payments and final tax due. If a resident individual earns salaries and wages from only one source and no other comprehensive income is derived in a tax year, the use of this method could result in the taxpayer not owing any additional tax at the time he/she files the annual return or not having to request a refund of tax overpaid.

For other types of comprehensive income derived by resident individuals, the computation of the advance tax to be withheld is basically the same as that under the previous IIT rules, so withholding agents will be familiar with the process.

Recommendations

Withholding agents (employers)

- In view of the significant changes to the computation of monthly IIT withholding on salaries and wages (particularly that the relevant data of previous months must be taken into account to determine the amount of tax to be withheld for residents), employers should consider updating their financial and payroll systems and provide training to relevant personnel to correctly compute the IIT withholding under the new IIT law.
- Withholding agents should proactively communicate with employees and other relevant personnel about the implications of the new IIT law and help them understand the new IIT collection mechanism (i.e. advance withholding plus annual reconciliation). It is worth noting that the monthly take-home pay may fluctuate due to the new computation method, so employers should make employees aware of the situation and remind them to submit the information relating to additional itemized deductions (e.g. deduction of children education expenses, housing mortgage interest, etc.) in a timely manner.
- Resident employees may provide information on additional itemized deductions to their employers so that these items are deducted when computing the advance tax to be withheld. The information could be provided in such a flexible way that employees may claim deductions in relation to previous months (within the same calendar year) in the current month to compute the advance tax. Therefore, employers with large employee populations may need to consider technology solutions to automate the information collection and processing to improve efficiency and accuracy.
- Since residents and nonresidents are subject to different withholding tax rules, employers with a large population of foreign employees should pay close attention to the employees' tax residence status to apply the correct tax treatment. The government has not clarified on how to deal with the situation where the residence status cannot be determined at the beginning of a year; employers should keep monitoring the relevant regulatory development and seek guidance from tax authorities or professionals where necessary.

Taxpayers

- For resident individuals who receive salaries and wages from two or more sources, or receive both salaries and other types of comprehensive income, it is likely that their final tax on annual comprehensive income will be different from the total of advance tax withheld during the year, so an annual reconciliation will be required. These taxpayers should become familiar with the annual reconciliation and filing procedures.
- For resident individuals who do not derive salary income but only other types of comprehensive income, their additional itemized deductions can be deducted only at the time the annual tax return is filed. These taxpayers should properly collect and maintain the relevant supporting documents during the tax year to claim the relevant deductions via the annual reconciliation.
- Relevant individuals should self-assess their personal tax residence status appropriately and have the status confirmed with withholding agents so that the correct withholding rules could be applied.
- Taxpayers should seek professional assistance in complex situations.

Tax Analysis is published for the clients and professionals of the Hong Kong and Chinese Mainland offices of Deloitte China. The contents are of a general nature only. Readers are advised to consult their tax advisors before acting on any information contained in this newsletter. For more information or advice on the above subject or analysis of other tax issues, please contact:

Beijing

Andrew Zhu
Partner
Tel: +86 10 8520 7508
Fax: +86 10 8518 1326
Email: andzhu@deloitte.com.cn

Chengdu

Frank Tang / Tony Zhang
Partner
Tel: +86 28 6789 8188 / 8008
Fax: +86 28 6500 5161
Email: ftang@deloitte.com.cn
tonzhang@deloitte.com.cn

Chongqing

Frank Tang / Tony Zhang
Partner
Tel: +86 23 8823 1208 / 1216
Fax: +86 23 8859 9188
Email: ftang@deloitte.com.cn
tonzhang@deloitte.com.cn

Dalian

Jihou Xu
Partner
Tel: +86 411 8371 2888
Fax: +86 411 8360 3297
Email: jihxu@deloitte.com.cn

Guangzhou

Victor Li
Partner
Tel: +86 20 8396 9228
Fax: +86 20 3888 0121
Email: vicli@deloitte.com.cn

Hangzhou

Qiang Lu / Fei He
Partner
Tel: +86 571 2811 1901
Fax: +86 571 2811 1904
Email: qilu@deloitte.com.cn
fhe@deloitte.com.cn

About the Deloitte China National Tax Technical Centre

The Deloitte China National Tax Technical Centre ("NTC") was established in 2006 to continuously improve the quality of Deloitte China's tax services, to better serve the clients, and to help Deloitte China's tax team excel. The Deloitte China NTC prepares and publishes "Tax Analysis", "Tax News", etc. These publications include introduction and commentaries on newly issued tax legislations, regulations and circulars from technical perspectives. The Deloitte China NTC also conducts research studies and analysis and provides professional opinions on ambiguous and complex issues. For more information, please contact:

National Tax Technical Centre

Email: ntc@deloitte.com.cn

National Leader

Southern China (Hong Kong)

Ryan Chang
Partner
Tel: +852 2852 6768
Fax: +852 2851 8005
Email: ryanchang@deloitte.com

Eastern China

Kevin Zhu
Partner
Tel: +86 21 6141 1262
Fax: +86 21 6335 0003
Email: kzhu@deloitte.com.cn

Harbin

Jihou Xu
Partner
Tel: +86 451 8586 0060
Fax: +86 451 8586 0056
Email: jihxu@deloitte.com.cn

Hong Kong

Sarah Chin
Partner
Tel: +852 2852 6440
Fax: +852 2520 6205
Email: sachin@deloitte.com.hk

Jinan

Beth Jiang
Partner
Tel: +86 531 8518 1058
Fax: +86 531 8518 1068
Email: betjiang@deloitte.com.cn

Macau

Raymond Tang
Partner
Tel: +853 2871 2998
Fax: +853 2871 3033
Email: raytang@deloitte.com.hk

Nanjing

Frank Xu / Rosemary Hu
Partner
Tel: +86 25 5791 5208 / 6129
Fax: +86 25 8691 8776
Email: frakxu@deloitte.com.cn
roshu@deloitte.com.cn

Shanghai

Maria Liang
Partner
Tel: +86 21 6141 1059
Fax: +86 21 6335 0003
Email: mliang@deloitte.com.cn

Northern China

Julie Zhang
Partner
Tel: +86 10 8520 7511
Fax: +86 10 8518 1326
Email: juliezhang@deloitte.com.cn

Southern China (Mainland/Macau)

German Cheung
Director
Tel: +86 20 2831 1369
Fax: +86 20 3888 0121
Email: gercheung@deloitte.com.cn

Shenyang

Jihou Xu
Partner
Tel: +86 24 6785 4068
Fax: +86 24 6785 4067
Email: jihxu@deloitte.com.cn

Shenzhen

Victor Li
Partner
Tel: +86 755 3353 8113
Fax: +86 755 8246 3222
Email: vicli@deloitte.com.cn

Suzhou

Kelly Guan
Partner
Tel: +86 512 6289 1328 / 1297
Fax: +86 512 6762 3338
Email: kguan@deloitte.com.cn

Tianjin

Bill Bai
Partner
Tel: +86 22 2320 6699
Fax: +86 22 8312 6099
Email: bilbai@deloitte.com.cn

Wuhan

Gary Zhong
Partner
Tel: +86 27 8526 6618
Fax: +86 27 6885 0745
Email: gzhong@deloitte.com.cn

Xiamen

Jim Chung
Partner
Tel: +86 592 2107 298
Fax: +86 592 2107 259
Email: jichung@deloitte.com.cn

Western China

Tony Zhang
Partner
Tel: +86 28 6789 8008
Fax: +86 28 6317 3500
Email: tonzhang@deloitte.com.cn

If you prefer to receive future issues by soft copy or update us with your new correspondence details, please notify Wandy Luk by either email at wanluk@deloitte.com.hk or by fax to +852 2541 1911.

About Deloitte Global

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 244,400 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

About Deloitte China

The Deloitte brand first came to China in 1917 when a Deloitte office was opened in Shanghai. Now the Deloitte China network of firms, backed by the global Deloitte network, deliver a full range of audit, consulting, financial advisory, risk advisory and tax services to local, multinational and growth enterprise clients in China. We have considerable experience in China and have been a significant contributor to the development of China's accounting standards, taxation system and local professional accountants. To learn more about how Deloitte makes an impact that matters in the China marketplace, please connect with our Deloitte China social media platforms via www2.deloitte.com/cn/en/social-media.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. None of the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.