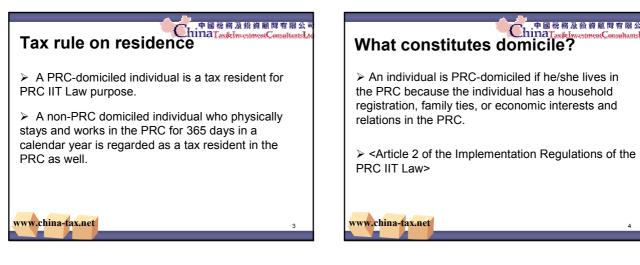


PRC Individual Income Tax

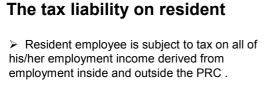
Alfred K. K. Chan

Singapore 5th September 2006

PRC in IIT – Agenda PRC tax and Non-PRC tax resident 183-day exemption rules Dividing lines between residence & non-residence Tax rates Specific tax rules on: year-end bonus Deductions and exempted items Taxation on director's fee Withholding obligations Tax saving plan www.china-tax.net



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> No count is taken of any "temporary absence" in calculating the number of days under the 365-day rule.



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Temporary absence

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> The IIT law deems the employee to stay inside the PRC national boundary in spite of the fact that the employee is physically absent in the PRC during the period of temporary absence.

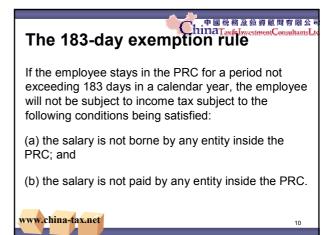
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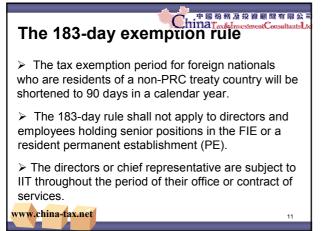
PRC source rules in IIT

Foreign nationals, employed by foreign company to exercise employment in the PRC, shall pay IIT irrespective of where he/she receives the income, in proportion to number of days he/she works in the tax year.

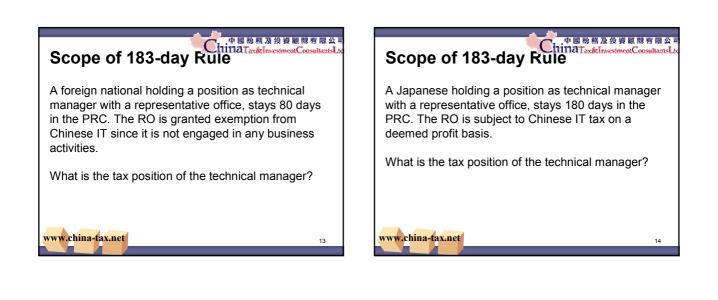
>Foreign national who enters into employment contract with an FIE should pay IIT irrespective of how long he/she works in the tax year.

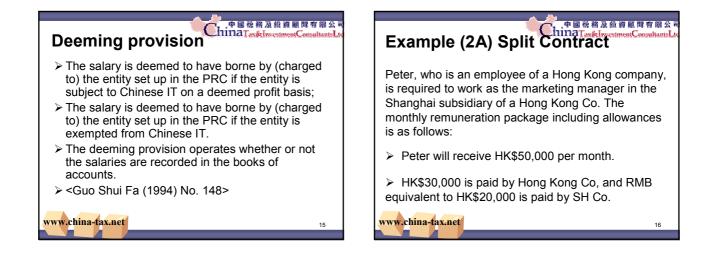












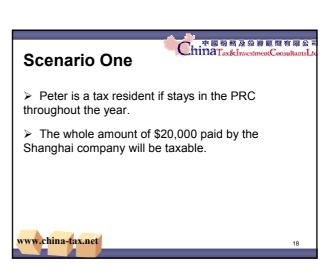
Example (2B) Split Contract

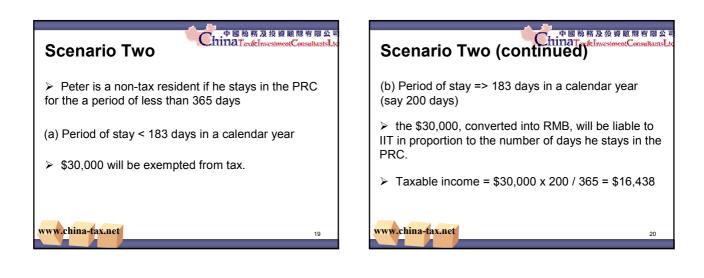
The position of his income tax will be as below:

 $\succ\,$ The amount of HK\$20,000 is taxable as it is borne by an entity in the PRC.

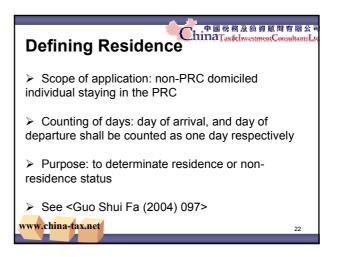
Q : What is the IIT liability for the amount of \$30,000 paid by Hong Kong?

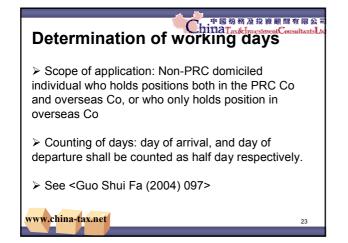
A : It depends on whether Peter is a tax resident or non-resident.





			China	司信務及接首 Tax&Investm	t顧問有限公司 entConsultanteLa
Period of	Тах	PRC-	source	Non-PR	C source
stay	Status	Paid in PRC	Paid outside	Paid inside	Paid outside
< 90 days (or 183 days)	Non- resident	\checkmark	exempt	×	x
=> 90 days (or 183 days)	Non- resident	\checkmark	\checkmark	×	×
1 ~ 5 years	Resident	\checkmark	\checkmark	~	×
Over 5 years		\checkmark	\checkmark	~	\checkmark
www.china-tax	.net				21



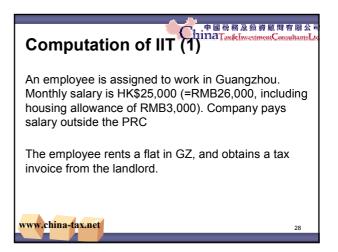


Determination of	中國時間及錄算顧問有限公 ChimataxeIncommetConsultantsL Period of Stay
Types of employer	Days to be counted
If employed by entity in the PRC	Rest days, annual leaves, days receiving training
If employed by entity outside the PRC	Rest days only
See SAT document Guo	Shui Han Fa (1995) No. 125
www.china-tax.net	24



PRC Incom Brackets (Ir		國務務及錄1 a <mark>Taxkin</mark> ucsin and	資顧關有限公司 weatConsultantsLiv
Tax Borne by Employee	Tax Borne by Employer	Tax Rate	Quick Deduction
Less than 500	Less than 475	5%	0
501-2,000	476-1,825	10%	25
2,001-5,000	1,826-4,375	15%	125
5,001-20,000	4,375-16,375	20%	375
www.china-tax.net			26

PRC Incom Brackets (Ir	e Tax Rates n RMB):	and	資顧 時 費限公司 mentConsultantsLte
Tax Borne by	Tax Borne by	Tax	Quick
Employee	Employer	Rate	Deduction
20,001-40,000	16,376-31,375	25%	1,375
40,001-60,000	31,376-45,375	30%	3,375
60,001-80,000	45,376-58375	35%	6,375
80,001-100,000	58,376-70,375	40%	10,375
Over 100,000	Over 70,375	45%	15,375
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IIT Computation - IIT Computation - Employee bears tax

Taxable income

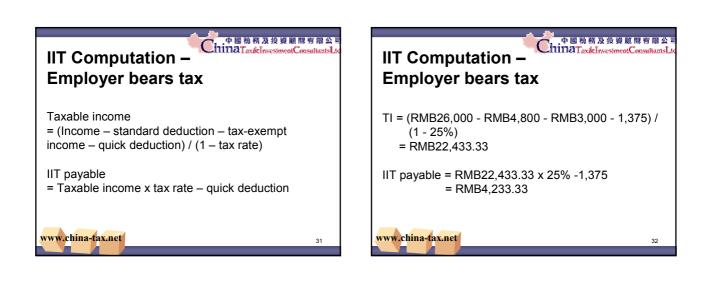
= Salary – Standard deduction – tax-exempt income

IIT payable

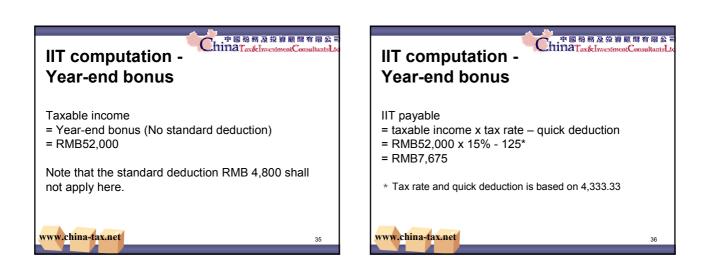
= taxable income x tax rate-quick deduction *

 $\ast\, {\rm Tax}$ rate and quick deduction vary with different income brackets.

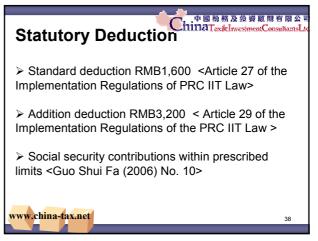


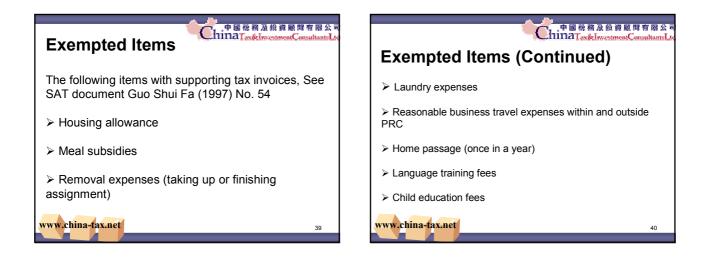








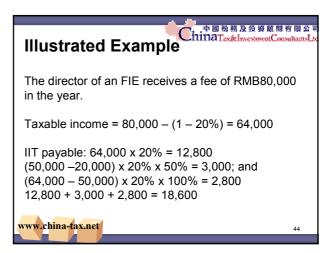




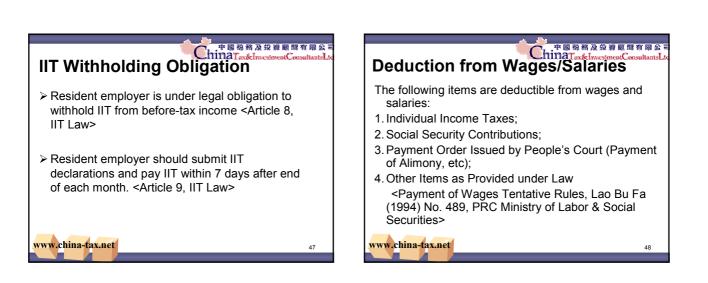




	Income brackets	Tax rates	Quick	
		(in %)	Deduction	
	Not exceeding 20,000	20	0	
2	20,000 to 50,000	30	2000	
3	Over 50,000	40	7000	







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Tax Saving Plan

- ➤ 183-day Rules
- Remuneration package includes non-taxable items (housing allowance, etc)
- Taking advantage of temporary absence provision to avoid tax on worldwide income after working in PRC over 4 years.
- Tax equalization schemes; employee can pay tax as if working at home
- > Employment contract vs. service agreement

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Thank You

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