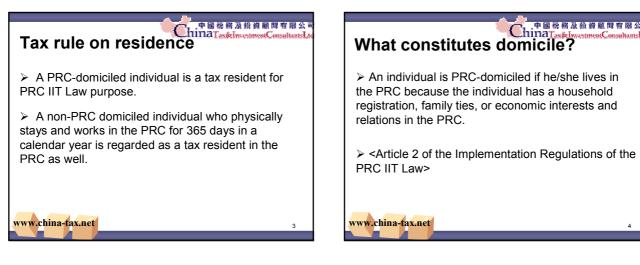


## **PRC Individual Income Tax**

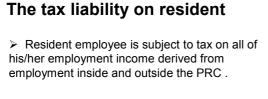
#### Alfred K. K. Chan

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.



#### 中國務務及投資顧問有限公司 ChinaTax&InvestmentConsultantsLie

### **Temporary absence**

www.china-tax.net

> 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.

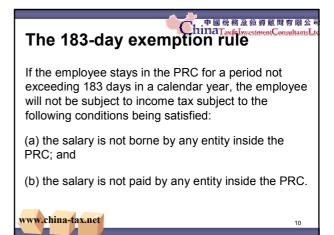
# ChinaTax於InvestmentConsultantsLt

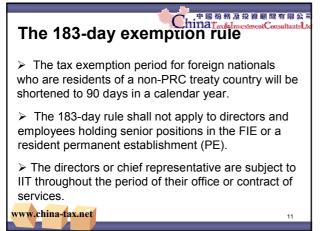
# PRC source rules in IIT

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.

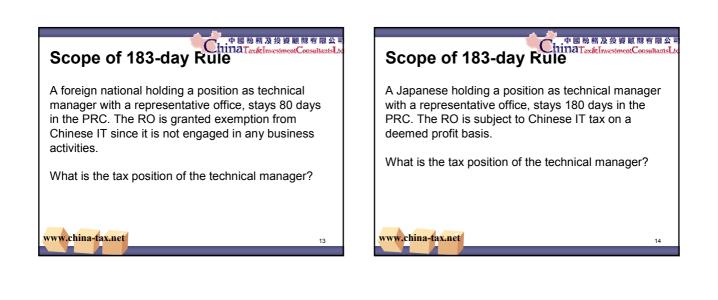
>Foreign national who enters into employment contract with an FIE should pay IIT irrespective of how long he/she works in the tax year.

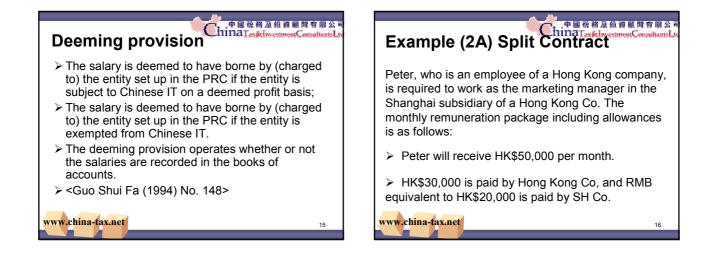












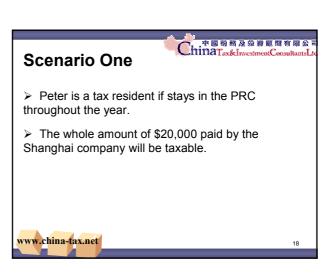
# Example (2B) Split Contract

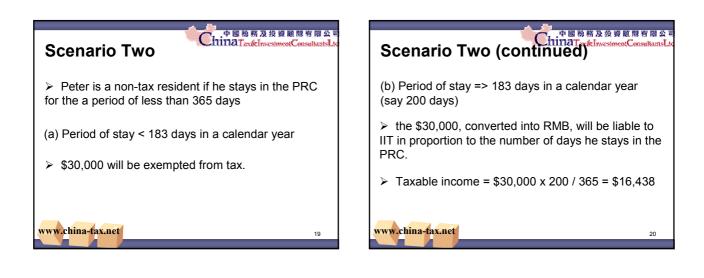
The position of his income tax will be as below:

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

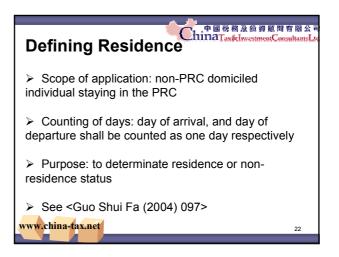
Q : What is the IIT liability for the amount of \$30,000 paid by Hong Kong?

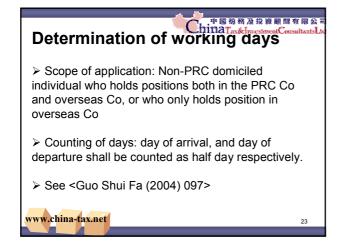
A : It depends on whether Peter is a tax resident or non-resident.





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



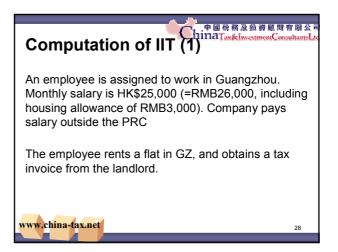


| Determination of                      | 中國時間及錄算顧問有限公<br>ChimataxeIncommetConsultantsL<br>Period of Stay |
|---------------------------------------|---|
| Types of employer                     | Days to be counted  |
| If employed by entity in the PRC      | Rest days, annual leaves, days receiving 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<br>Brackets (Ir |                          | 國務務及錄1<br>a <mark>Taxkin</mark> ucsin<br>and | 資顧關有限公司<br>weatConsultantsLiv |
|---------------------------|--------------------------|--|-------------------------------|
| Tax Borne by<br>Employee  | Tax Borne by<br>Employer | Tax<br>Rate                                  | Quick<br>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<br>Brackets (Ir | e Tax Rates<br>n RMB): | and  | 資顧 <b>時</b> 費限公司<br>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                                 |
| www.china-tax.net         |                        | _    | 27                                     |



IIT Computation - IIT Computation - Employee bears tax

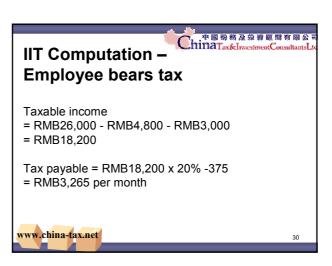
Taxable income

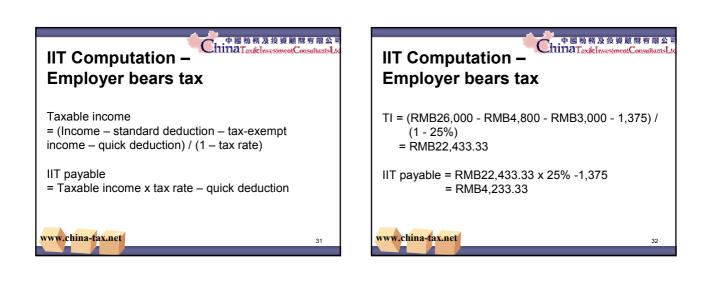
= Salary – Standard deduction – tax-exempt income

IIT payable

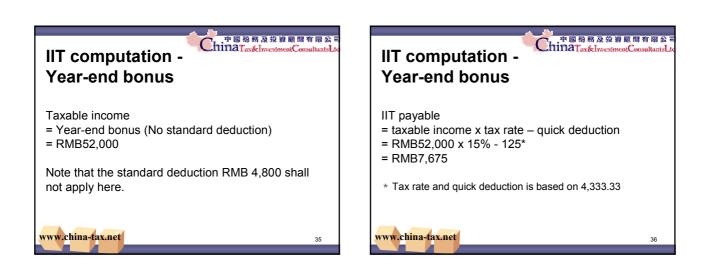
= taxable income x tax rate-quick deduction \*

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

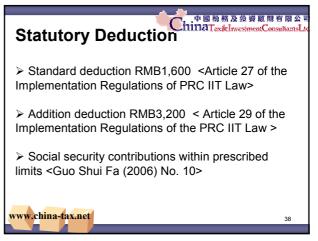


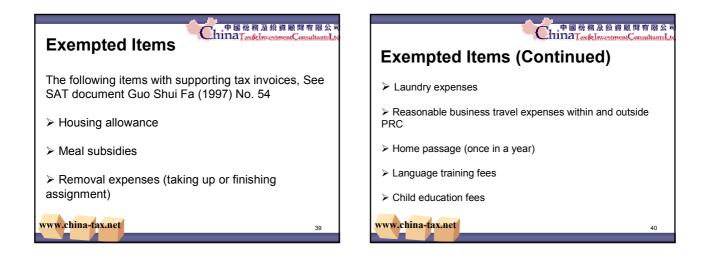








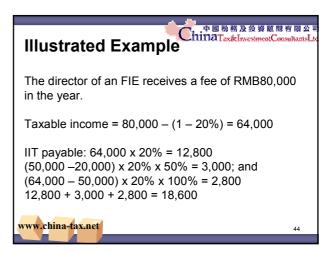




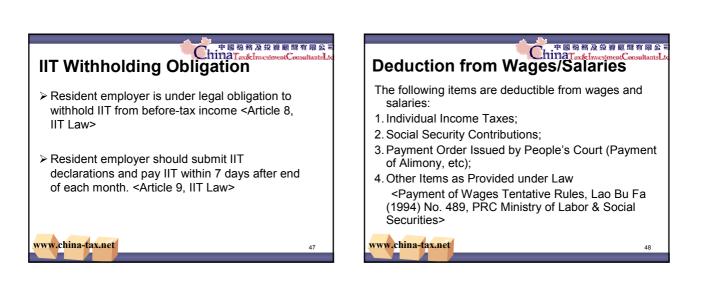




|   | Income brackets      | Tax rates | Quick     |  |
|---|----------------------|-----------|-----------|--|
|   |                      | (in %)    | Deduction |  |
|   | Not exceeding 20,000 | 20        | 0         |  |
| 2 | 20,000 to 50,000     | 30        | 2000      |  |
| 3 | Over 50,000          | 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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中國税務及投資顧問有限公司 ChinaTax&InvestmentConsultantsLtd

Thank You

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