



China Tax Newsletter

December 2018

Our tax newsletter for this month covers:

1. Official Promulgation of the Implementation Regulations of the New Individual Income Tax	1
2. Official Promulgation of the Interim Measures for Special Additional Deductions for Individual Income Tax	2
3. Transition of Relevant Preferential Policies after the Revision of the Individual Income Tax Law	4
4. Tax Payment Certificates of Individual Income Tax Will Be Replaced by Tax Payment Records from 2019	5
5. Individual Income Tax Exemption for Income Obtained by Individuals from Transfer of Non-original Shares Issued by NEEQ-listed Companies	5
6. The State Administration of Taxation Revised the Annual Enterprise Income Tax Return of the People's Republic of China (Category A, 2017 Edition)	6
7. Tax Payment Certificate Is No Longer Managed as a Tax Vouchers from 2019	6

1. Official Promulgation of the Implementation Regulations of the New Individual Income Tax

Recently, Li Keqiang, Premier of the State Council, signed the Order of the State Council on promulgation of the revised *Implementation Regulations of the Individual Income Tax Law of the People's Republic of China* (hereinafter referred to as "*Revised IIT Implementation Regulations*"), which features the following main changes:

(1) Changes the Regulation on Residency Year Limit and Increase the Tax Preferences for Expatriates

The *Revised IIT Implementation Regulations* changes the conditions for expatriates to enjoy the individual income tax exemption on foreign-sourced income from "not more than five consecutive years" to "not more than six consecutive years", and defines the concept of "not more than six consecutive years", that is, an expatriate leaves China for more than 30 days on a single trip in any year during which he/she resides in China for 183 days or more accumulatively, the consecutive number of years for which he/she resides in China for 183 days or more accumulatively shall be counted again.

(2) Stipulates that Individually-owned Businesses and Other Business Entities Can Enjoy the Special Additional Deductions

Article 15 of the *Revised IIT Implementation Regulations* stipulates that where an individual deriving income from business operation does not have a general income, CNY60,000 expenses, special deductions, special additional deductions and other deductions specified according to the law shall be deducted from his/her taxable income of each tax year. The special additional deductions shall be deducted when an individual makes final settlement.

(3) Clearly Stipulates the Circumstances Where a Taxpayer Needs to Handle the Final Settlement

Article 25 of the *Revised IIT Implementation Regulations* stipulates that the circumstances where a taxpayer needs to handle the final settlement of tax due on his/her general income include: a) where the taxpayer derives general income from two or more sources, and the balance of the annual general income minus special deductions exceeds CNY60,000; b) where the taxpayer derives one or more items of income from remuneration for labor services, income from author's remuneration, and income from royalties, and the balance of the annual general income minus special deductions exceeds CNY60,000; c) where the amount of tax paid in advance during the tax year is lower than the amount of tax payable; and d) where the taxpayer applies for a tax refund.

Tips from BDO China:

The State Administration of Taxation issued the *Announcement on Matters Concerning the Self-declaration of Individual Income Tax* (Announcement of the State Administration of Taxation [2018] No.62), which clearly defines the applicable objects, time, location and methods of self-filing of tax returns required under six circumstances, including final settlement and payment of individual income tax, receiving income from business operation, withholding agents failing to withhold individual income tax, receiving overseas income, deregistration of Chinese nationality as a result of emigration, non-resident individuals receiving wage and salary income from two or more sources within the territory of China.

(4) Clearly Specifies the Related Regulations Concerning Other Deductions and Special Additional Deductions

The *Revised IIT Implementation Regulations* clarified that deductions are allowed for the enterprise annuities and occupational annuities in compliance with state regulations as paid by individuals, expenditures for purchase of the commercial health insurance and tax-deferred commercial pension insurance in compliance with state regulations, and other items that may be

deducted as specified by the State Council. It also defines that when a resident individual derives wage and salary income, the withholding agent may apply special additional deductions when withholding the individual income tax. Where a resident individual derives other general income, he/she can apply for special additional deductions at the final settlement. A taxpayer may entrust the withholding agent or other entity or individual to handle the final settlement.

2. Official Promulgation of the Interim Measures for Special Additional Deductions for Individual Income Tax

Recently, the State Council and the State Administration of Taxation issued successively the *Notice on Promulgation of the Interim Measures for Special Additional Deductions for Individual Income Tax* (Guo Fa [2018] No.41) and the *Announcement on Promulgation of the Operation Measures on Special Additional Deductions for Individual Income Tax (for Trial Implementation)* (Announcement of the State Administration of Taxation [2018] No.60), which clarifies the specific operation measures on special additional deductions. The main contents are as follows:

Special Additional Deductions	Deduction Method	Applicable Scope	Deduction Standard	Deduction Period	Materials Retained for Future Reference
Children's Education Expenses	Standard deduction at fixed amount	Pre-school education: from the age of three to the admission of primary school	CNY1,000 per month for each child	Attainment of age three to one month before primary school admission	For children educated outside China, taxpayers shall retain the admission letter from the overseas school, the student visa and other relevant materials.
		Academic education: from primary school to doctoral education (including intermediate vocational education and technician education)		From the month of admission to full-time academic education to the month of completion of full-time academic education	
Continuing Education Expenses	Standard deduction at fixed amount	Continuing academic education	CNY400 per month, deduction period up to 48 months	From the month of admission to continuing education to the month of completion of academic (degree) continuing education	The relevant vocational qualifications certificates and other materials.
		Expenses for the vocational qualification continuing education of technicians or professional technicians	CNY3,600 to be deducted in the year when the relevant certificates are received	The year when the relevant certificates are received	

Special Additional Deductions	Deduction Method	Applicable Scope	Deduction Standard	Deduction Period	Materials Retained for Future Reference
Medical Expenses for Serious Diseases	Deducted within the standard limit based on the actual situation	Within a tax year, where the medical expenses incurred and borne by a taxpayer in relation to the basic medical insurance, after the deduction of medical insurance reimbursement (referring to the portion borne by the insured within the scope of medical insurance directory), cumulatively exceed CNY15,000	Portion in excess of CNY15,000 and deducted within limit of CNY80,000 per year based on the actual situation	The year in which the medical expenses are incurred as shown in the medical insurance information system	The original or photocopy of the relevant bills for medical services and medical insurance reimbursement for the patient suffering from serious diseases, or the list of personal annual medical expenses issued by the medical insurance administration and other materials.
Housing Mortgage Interest	Standard deduction at fixed amount	Mortgage interest on home loan for first home	CNY1,000 per month, the deduction period shall not exceed the maximum of 240 months	From the month in which the loan contract stipulated to start repayment to the month when the loan is fully repaid or the loan contract is terminated	Home loan contracts and loan repayment vouchers and other materials.
House Rent	Standard deduction at fixed amount	A municipality directly under the Central Government, the capital of a province (or the capital of an autonomous region or prefecture), a city specifically designated in the State plan or any other city determined by the State Council	CNY1,500 per month	From the month in which the lease term is agreed upon in the lease contract (agreement) to the month of the end of the lease period, the early termination of the contract (agreement) is subject to the actual lease term.	The house rental contracts or agreements and other relevant materials.
		City with a registered population of more than 1 million within municipal districts	CNY1,100 per month		
		City with a registered population of not more than 1 million within municipal districts	CNY800 per month		
Elderly Care Expenses	Standard deduction at fixed amount	Parents aged 60 or above, as well as grandparents aged 60 or above whose	If the taxpayer is a single child, CNY2,000 per month	From the month in which the dependents are 60 years old to the end of the year when	Written sharing agreement for agreed or designated

Special Additional Deductions	Deduction Method	Applicable Scope	Deduction Standard	Deduction Period	Materials Retained for Future Reference
		children are all deceased	If the taxpayer is not a single child, the deduction quota of CNY2,000 per month may be shared, and the amount shared by each person shall not exceed CNY1,000 per month	the support obligation is terminated	sharing, and other relevant materials

Tips from BDO China:

The taxpayer may submit personal special additional deduction information to the withholding agent or the competent tax authority by means of remote taxation terminals, or electronic or paper statements. Except that medical expenses for serious disease can only be deducted at the annual settlement, the other five items can be applied for deduction by the employers during the withholding process. When paying wages and salaries to an individual resident, the withholding agent shall calculate the individual income tax payable according to the accumulative withholding method, and process filing on a monthly basis. The relevant supporting tax documents are as follows:

- [!\[\]\(8c4dca64662d21542001ca0ed7eeb688_img.jpg\) Announcement on Matters Concerning the Self-declaration of Individual Income Tax \(Announcement of the State Administration of Taxation \[2018\] No.62\)](#)
- [!\[\]\(3de35c640e7147a3fb61ee393128d2ae_img.jpg\) Announcement on Promulgation of the Administrative Measures for the Withholding and Filing of Individual Income Tax \(for Trial Implementation\) \(Announcement of the State Administration of Taxation \[2018\] No.61\)](#)
- [!\[\]\(d1438aeefda19c86ae7477bf1fb30796_img.jpg\) Announcement on Promulgation of the Operation Measures on Special Additional Deductions for Individual Income Tax \(for Trial Implementation\) \(Announcement of the State Administration of Taxation \[2018\] No.60\)](#)
- [!\[\]\(dc4d2c544087998b6f093f485f5119d7_img.jpg\) Announcement on the Matters Concerning Taxpayer Identification Numbers of Natural Persons \(Announcement of the State Administration of Taxation \[2018\] No.59\)](#)
- [!\[\]\(f26ab61dd00ea7e5f19553908ec3fa6b_img.jpg\) Announcement on Several Transitional Matters relating to Tax Collection and Administration for Full Implementation of the New Individual Income Tax Law \(Announcement of the State Administration of Taxation \[2018\] No.56\)](#)

3. Transition of Relevant Preferential Policies after the Revision of the Individual Income Tax Law

In order to implement the revised *Individual Income Tax Law of the People's Republic of China*, the State Administration of Taxation issued the *Notice on Matters Concerning Transition of Relevant Preferential Policies after the Revision of the Individual Income Tax Law* on December 27, 2018 (Cai Shui [2018] No.164). The transition period specified is from January 1, 2019 to December 31, 2021.

(1) Annual One-off Bonus

During the transition period, the annual one-off bonus meeting the conditions specified in the circular Guo Shui Fa [2005] No.9 obtained by resident individuals will not be consolidated into

the general income of the year. The amount of the annual one-off bonus shall be divided by 12 months, and the quotient shall be used as the basis for calculating the tax payable pursuant to the monthly tax rate table.

After the transition period, the annual one-off bonus obtained by residents shall be consolidated into the general income of the year for calculating the individual income tax.

(2) Equity Incentives of Listed Companies

During the transition period, equity incentives incomes such as stock option, stock appreciation right, restricted stocks, and incentive shares obtained by a resident individual will not be consolidated into the general income of the year, but to be calculated at full amount based on the tax rate table of general income for tax payment. Where the equity incentives are gained twice or above by the resident within one tax year, they shall be consolidated and calculated as the taxable amount in accordance with aforesaid regulation.

The stipulation for after-transition period will be defined separately.

(3) Subsidies and Allowances for Foreign Individuals

During the transition period, foreign individuals may choose to be entitled to the special additional deductions for individual income tax on the premise of meeting the conditions of resident individual. They can also choose to enjoy tax exemption for housing subsidies, language training fees, children's education fees and other subsidies and allowances in accordance with the original regulations. It is not allowed to be entitled to the two tax preferences at the same time. Once one tax preference policy was chosen, it must not be switched during a tax year.

After the transition period, foreign individuals will no longer be entitled to the tax exemption policies for subsidies and allowances such as housing subsidies, language training fees, children's education subsidies, and should be applicable to special additional deductions as required.

(4) One-time Compensation Income for the Termination of Labor Agreement

For the one-time compensation income (including the economic compensation, living allowance and other subsidies paid by the employer) due to the termination of the labor agreement, the portion within three times of the local average salary of the previous year shall be exempted from individual income tax, and the portion in excess shall not be included in the general income of the year. It should be independently applied to the general income tax rate table for calculation of the tax payable.

4. Tax Payment Certificates of Individual Income Tax Will Be Replaced by Tax Payment Records from 2019

The State Administration of Taxation issued the *Announcement on Matters Concerning the Substitution of the Tax Payment Record for the Tax Payment Certificate (Textual Form) for Individual Income Tax* (Announcement of the State Administration of Taxation [2018] No.55) in order to tie in with the reform of the individual income tax system. Starting from January 1, 2019, where a taxpayer applies for the proof of the tax payment (refund) of the individual income tax for the tax period of January 1 (inclusive), 2019 or afterwards, the tax authority will no longer issue tax payment certificates (textual form), but will issue tax payment records. The taxpayer can apply for the tax payment record of individual income tax through the tax bureau website or mobile APP, or visit the tax service hall to lodge the application.

5. Individual Income Tax Exemption for Income Obtained by Individuals from Transfer of Non-original Shares Issued by NEEQ-listed Companies

For the purpose of promoting a long-term and stable development of the National Equities Exchange and Quotations (hereinafter referred to as "NEEQ"), the Ministry of Finance, the State

Administration of Taxation and the China Securities Regulatory Commission issued the *Notice on the Individual Income Tax Policy for Individuals' Transfer of Shares of Companies Listed on the National Equities Exchange and Quotation* (Cai Shui [2018] No.137). From November 1 (inclusive), 2018, income obtained by individuals from transfer of non-original shares issued by NEEQ-listed companies shall be exempted temporarily from individual income tax. Non-original shares refer to the shares acquired by individuals after the companies are listed on the NEEQ, and bonus or converted shares accrued from the aforesaid shares.

The income derived by individuals from transfer of original shares issued by the NEEQ-listed companies shall be taxed at the applicable tax rate of 20% per the item "income from the transfer of property". Original shares refer to the shares acquired by individuals before the companies are listed on the NEEQ, and bonus or converted shares accrued from the aforesaid shares before and after the listing of the company.

6. The State Administration of Taxation Revised the Annual Enterprise Income Tax Return of the People's Republic of China (Category A, 2017 Edition)

In order to implement the *Enterprise Income Tax Law of the People's Republic of China* and related policies, the State Administration of Taxation issued the *Announcement on Revising Certain Forms of the Annual Enterprise Income Tax Return of the People's Republic of China (Type A, 2017 Edition) and the Instructions for Completing Forms* (Announcement of the State Administration of Taxation [2018] No.57), which revises the annual enterprise income tax return of type A, 2017 Edition. The revised tax return applies to the declaration for the final settlement of annual enterprise income tax for 2018 and thereafter. At the same time, the State Administration of Taxation issued the *Announcement on Measures to Simplify the Annual Enterprise Income Tax Filing of Small Low-profit Enterprises* (Announcement of the State Administration of Taxation [2018] No.58), which clarifies the forms or contents in the annual enterprise income tax return that should be filled out, may opt to be filled out, and not required to be filled out by small low-profit enterprises for the annual declaration, which simplifies the declaration by small low-profit enterprise.

7. Tax Payment Certificate Is No Longer Managed as a Tax Vouchers from 2019

To further regulate the administration of tax vouchers, the State Administration of Taxation published the *Notice on Clarifying Matters Concerning the Issuance and Administration of Tax Payment Certificates (Textual Form)* (Shui Zong Han [2018] No.628). From January 1, 2019, tax payment certificate is no longer managed as a tax voucher. The tax payment certificate shall not be overprinted with the "manufacture-supervising seal by the State Administration of Taxation for tax vouchers". The seal to be affixed by the tax authority changes from "special seal for tax collection" to "special seal for tax matter".

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO China Shu Lun Pan Certified Public Accountants LLP and Lixin Certified Tax Agents Co., Ltd to discuss these matters in the context of your particular circumstances. BDO China Shu Lun Pan Certified Public Accountants LLP and Lixin Certified Tax Agents Co., Ltd, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it. For more information or advice on the above subjects or other tax issues, please contact:

Jesse Wang

Partner, Tax and Advisory

Tel: +86-755-82900993

Mobile: +86-138 0883 9880

Email: jesse.wang@bdo.com.cn | tax@bdo.com.cn

BDO China Shu Lun Pan Certified Public Accountants LLP, and Lixin Certified Tax Agents Co., Ltd, a Chinese LLC, are members of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.